

# **PUBLIC CORPORATIONS**

*By Dr. Gyan Chand, Donald Heatherington, R. V. Murthy,  
Leo. T. Crowley, J. Rafoel  
Oreamuno and A. N. Agarwala.*

## SOME RECENT WORKS

*By A. N. AGARWALA*

The Problem's of Social Security for Industrial Workers in India (1945)

Health Insurance in India (1945)

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# PUBLIC CORPORATIONS

*An expert study of the economics of public corporations and of the more important corporations like U.K.C.C., F.C.I., I.C.F.C., U.S.C.C., I.A.D.C., D.C.C., and the proposed I.C.C.*

BY

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**(GOVERNMENT CONTRIBUTION TO POST-WAR PLANNING**

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## PREFACE

Public Corporations have recently grown into powerful institutions through which the Governments of the various countries of the world have been trying to mobilise their economic resources for the successful conclusion of the hostilities and which are fast becoming important agencies for economic development (like D.C.C. and A.I.D.C.), for the financing of industries (e.g. F.C.I. and I.C.F.C.), for the prosecution or expansion of foreign trade (e.g. U.K.C.C. and U.S.C.C.) and for other like purposes. Their role in the post-war planning in particular is destined to be great and significant. It seems, therefore, important that an expert study is made of this new development in economic sphere ; and this is made available not only to students of economics and politics but also to an ever-widening circle of industrialists, Government officials and general readers who are interested in such matters. Such a study may be expected to be especially useful in a country like India where no Public Corporation has yet come into existence, where great harm has already been caused to the body economic by the notorious activities of the United Kingdom Commercial Corporation, where the demand for the formation of an Indian Commercial Corporation is alive and persistent, and where the Government contemplate to set up such Corporations for a variety of purposes in the post-war period. There is, however, no book of which we are aware which deals with this subject adequately and satisfactorily. It was for reasons such as these that the present book was planned and it is now before those interested in the problem. It is hoped that it will remove an important gap in our economic literature and generally serve the objects for which it has been designed.

I take the opportunity of expressing my gratitude to all the contributors to this volume, particularly to my kind and obliging friends, Dr. Gyan Chand and Mr. R. V. Murthy who had to write lengthy chapters in the short time at their disposal and in the midst of their other heavy engagements.

ALLAHABAD :

*July 5, 1945.*

A. N. AGARWALA

*Editor*

## CONTENTS

### PREFACE, p. v

- I. PUBLIC CORPORATIONS, p. 1  
*By Dr. Gyan Chand, Ph.D. (London)  
Professor of Economics, Patna University*
- II. UNITED KINGDOM COMMERCIAL CORPORATION, p. 36  
*By Donald F. Heatherington  
U.S. Bureau of Foreign and Domestic Commerce*
- III. UNITED KINGDOM'S NEW FINANCIAL CORPORATIONS : F.C.I. AND I.C.F.C. p. 47  
*By R. V. Murthy, M.A.,  
Editor, 'Commerce,' Bomba*
- IV. UNITED STATES COMMERCIAL COMPANY, p. 69  
*By Leo. T. Crowley  
Administrator, U.S. Foreign Economic Administra-  
tion*
- V. THE INTER-AMERICAN DEVELOPMENT COMMISSION, p. 75  
*By J. Rafael Oreamuno  
Vice-Chairman, Inter-American Development Com-  
mission*
- VI. DEVELOPMENT CORPORATION OF CHILE, p. 86  
*Based on President's Annual Message to the Chilean  
Congress*
- VII. THE NEED FOR INDIAN COMMERCIAL CORPORATION, p. 91  
*By A. N. Agarwala, M.A. (Editor)  
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## CHAPTER I

# PUBLIC CORPORATIONS

BY

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### Growing Importance of Public Corporations

Dr. A. Robson in his preface to *Public Enterprise*—a study in social ownership and control in Great Britain—characterizes public boards and commissions as ‘the most significant development in the field of political institutions which has taken place during the present century,’ and in the concluding chapter of the book says that though they have evolved in a haphazard and empirical manner and are not based on any clearly defined principles, ‘now suddenly they have become all the rage.’ This development is not confined to Great Britain. Similar bodies have been set up and are functioning in a number of countries and are of growing importance. The war has given great impetus to this development and a number of corporations, constituted and financed by the State, have played an important, in some cases, a decisive role in economic and political strategy of the war. Though designed specifically to meet the war situation, they are likely to be found useful after the war for dealing with and solving the very difficult problems of the post-war period. Public Corporations now appeal equally, as Dr. Robson points out, to Right and Left and in all countries the postwar planners of very different points of view have advocated the formation of such corporations for the elaboration and execution of the schemes of economic reorganization and development favoured by them.

The wide appeal, which the idea of forming such associations has acquired all over the world, does not however indicate equally wide agreement with regard to the purpose and *modus operandi* of these associations. Behind this general readiness to favour the constitutions of these bodies is wide divergence of intents and purposes and the conservative and re-actionary interests are really expecting to make use of them for consolidating their own position and making a weapon of defence against encroachment on their preserves and privileges. The events have, however, owing to the times in which we are living, a dynamic of their own and will shape themselves in response to the incessant urge to develop new organs to meet new needs. The need for combining efficiency, freedom and responsibility in economic and social affairs of men is urgent and the significance of utilizing public boards, commissions or corporations as agencies for the administration of important economic and social functions, in spite of the haphazard and empirical character of this development, lies in these bodies being an answer, partial and incomplete, yet an answer to this insistent need. It is necessary now to define more clearly the purpose and principle of public corporations if they are to be used more widely and intelligently for carrying out public policies and promoting public interests. It is now admitted that planning on national and even international scale, is pre-eminently desirable and unavoidable for economic stability, peace and development, and it is also clear that public corporations, in one form or the other, have to be made instruments for the introduction and working of planned economy. They are, taken together, an important development in the field both of political and economic institutions because with the State assuming a determinant role in the initiating and carrying out of economic policies, all economic policies become a matter of political judgment and decision.

### **General Principles of Public Corporations**

Essentially speaking, the underlying principle of public corporations is simple. They should be organs for the

discharge of specific public functions, and be managed by men who can bring to bear training, competence and experience to the performance of their duties in a spirit of public service. It has to be assumed that industry, in its widest sense which of course includes trade and agriculture, is of the highest importance to the community and calls for the application and maintenance of the best standards of efficiency, honesty and devotion to duty.

Divorce between the conduct of economic affairs and standard of values has had disastrous consequences, degraded not only economic but social life as a whole to the lowest level, bred internal and international conflict and involved enormous waste of human and material resources. The view implied in "business is business" principle is not only morally wrong but in the existing conditions socially indefensible. From doctors, teachers, lawyers, engineers, and public administrators the community expects much more than merely the attitude adequate for making a living. Economic incentives have a place in these walks of life but it is recognised that these are public services and duty to the community has to be given as important a place in the performance of their professional duties as the pursuit of personal ambitions. In the existing milieu men in even these occupations fall short of the standards which they are expected to work up to, but the need for maintaining standards is realised and they are up to a point enforced by the State and professional associations. It should be self-evident but it is not that industrialists, bankers, merchants and entrepreneurs of all kinds are to-day doing work of the very highest social importance and owing to the power, which they have acquired, it is even more important that merit should be the basis for being entrusted with these important duties and they should be accountable to the community for the manner in which they discharge these duties. Leaders in industry as leaders in all other fields should be men of ability, integrity and the highest sense of public duty, and it is of the utmost importance to the future that the community should

make sure that irresponsible economic power—power acquired by the possession of wealth or other fortuitous circumstances—should lapse to the community and in future technical competence combined with acknowledged obligation to the community to render an account for their stewardship should be the only qualification for appointment or promotion to the position of trust and responsibility in economic life. And granting that the men in power have both ability and sense of responsibility, economic undertakings, whether they are owned by the State or private individuals, should be 'run' by them, i.e., the community should defer to their judgment and experience in the conduct of these enterprises and be guided by them in all important decisions relating to them. In all matters affecting the welfare of the people as a whole the community must have, of course, the first and the last word, i.e. should lay down the general policy and ensure that it is carried out in letter and spirit; but otherwise industry should be managed by men who have mastered its technique and know how to get the best results at the lowest cost to the community.

President Roosevelt in recommending the creation of the Tennessee Valley Authority referred to it as 'a corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise.' All public corporations have to be armed with public authority, i.e. they must have 'the power of Government' but the nature and extent of this power has to be defined and limited by the nature of their function and they can possess 'the flexibility and initiative of private enterprise' only if they are autonomous within the limits necessary for the discharge of their specific functions, have the freedom to adjust their policy and administration to the special needs and circumstances of the undertaking and are capable of taking quick and appropriate decision when the occasion calls for promptness of action based on intelligent apprehension of the essentials of the situation. Public corporations, as a form of economic

organization, have come into favour because in them is the implicit promise of fulfilment of a social purpose without the handicap of bureaucratic rigidity. They are intended to meet the old and traditional objection to State management of economic undertakings,—red-tape, unnecessary multiplicity of rules and regulations, excessive regard for precedents and conventions, division of responsibility, the resultant conservatism of policy and practice and fear of innovations and experimentation. Their underlying principle is that stereotyped procedure is entirely unsuited to the management of public enterprizes and must unavoidably lead to stagnation, thwarting of creative impulses and lack of adaptability to changes in conditions and circumstances. Enlargement of the scale of operation in economic life has rendered it necessary to adopt general rules which have to be observed by employees of all grades and limit the freedom of personal choice and initiative. Impersonalization of economic administration is inherent in all large scale economic operations and cannot be avoided even if private enterprise remains the dominant fact of economic life Railways, shipping companies, steel corporations, chain stores or cartellized industries of any kind have to have routine, set rules, general norms of conduct and production and codes of reference and guidance. When such undertakings are taken over by the State or its accredited agency, elaboration of procedure inherent in the management of such enterprizes has to be retained for their working and management. But what is essential is that public corporations responsible for administering these enterprizes being public monopolies should, besides acquiring a social purpose, which should impress itself on the choice of means and ends, remain immune, as far as possible, from the besetting sins of all monopolies, public and private, self-complacency, false pretences, deadening conformity and corporate egotism involving as it must resort to devices amounting to defence mechanism against outside scrutiny and calls to exertion for improvement of service and reduction of costs. Public corporations not being subject to competitive

pressure or the stress of demands for increasing profits have to develop impetus from within which should mean quest for devising means by which the community can get better service at lower cost without overworking or underpaying their employees. These corporations have, in order to function well to develop esprit de corps and pride in their work and its standards and organize themselves for effective team-work. But it needs constant vigilance to see that corporate feeling does not degenerate into aggressive caste feeling, pride into exaggerated sense of their own importance or organized team-work into exclusive regard for their own interest. All virtues have their vices and public corporations, charged as they must be with important economic and social functions, will have to provide adequate safeguards against the vices of the virtues on the acquisition or cultivation of which their efficient working or progressive development must necessarily depend.

### **Future Industrial Policy of the Government of India and Public Corporations**

In India the Government of India have, in their statement on their future industrial policy, indicated that they expect that besides the industries which are or may be directly owned and managed by the State, for which presumably ad hoc corporation for their administration will have to be constituted, other industries will either be jointly financed and administered by the State and private individuals or by private individuals subject to varying degrees of control in order to ensure balanced development of all parts of the country, even distribution of the available investible funds provide fair wages, decent living conditions and reasonable security of tenure for the workers and bring about co-ordinated development of industry, agriculture and trade according to a well conceived scheme of social priorities. If this scheme is to be put into effect, it would be necessary to set up public

boards not only for managing the State owned enterprises but also for regulating and controlling the development of all industries for the mobilising and allocating of surplus funds of the community, for licensing the establishment and location of industries, for standardizing and marketing agricultural produce, for organised development of agriculture even if actual cultivation is left to private individuals, for controlling exports from or imports into the country or for bulk trading which under the postwar conditions will become unavoidable. This means that public corporations will cover a variety of functions and activities; and even if there is a large sector of private enterprise in our economic life, public corporations will be needed not only to administer publicly-owned enterprises but also regulate and control the establishment, working and development of all private undertakings in order that economic life as a whole may have unity of purpose and policy—in order that we may have planned economy in the real sense of the word. We shall need, besides publicly operated corporations, syndicates for managing or controlling different industries, Licensing Boards, Investment Boards, Marketing Boards, Import and Export Boards, Rural Development Associations, Health, Road and Education Boards on national, provincial and regional basis. In one word, we shall need ad hoc boards or corporations for all important economic and social functions, each of them autonomous and charged with a function which it will perform on behalf of the community, as a part of master-plan for the country as a whole and within limits set by the need for unity of plan as a whole and co-ordination of its parts subject to the unifying control of the central planning authority.

Planning in every country will make it necessary to set up similar organizations consisting of administrative, supervisory, regulating and co-ordinating boards covering the whole range of economic life. If planning is extended to international sphere, as it must be if national planning is not to lead to international chaos, similar boards or commissions will have to be

constituted for the discharge of international functions and cover similar variety and multitude of functions. This may raise many difficult problems of international co-operation and adjustment of international relations. The discussion at San Francisco and happenings in Germany, Austria, Poland, Greece and the Levant make it clear that conscious will to co-operate is still weak and, will to power, the real motive behind the profession of lofty idealism and the outlook for genuine international co-operation anything but promising. But resurgence of popular forces is under way which, if it is permitted to run its course, will eventually facilitate much larger measure of international co-operation than seems to be possible at present and necessitate establishment of a network of international institutions to which the Economic and Social Security Council, the formation of which is under consideration at St. Francisco is only a pointer. In order to avoid interminable difficulties due to the adjustment of national sovereignties, functional corporations for specific or multiple purposes will probably provide the most hopeful line of approach for raising the standard of living in backward countries and co-ordinated development of their resources. This is more or less speculative, but the point which matters is that if international co-operation is to materialize to any considerable extent, the formation of ad hoc public corporations on functional basis will most likely be the most fruitful method of securing this end. This has a bearing also on the constitutional prospects in this country. If the country is partitioned politically in response to a demand for a separate and sovereign Muslim India, but if it is real 'separation of brothers' -i.e. there is mutual good-will and desire to maximize economic development of the country—there need not be economic Balkanization of the country owing to its political division between Pakistan and Hindustan ; and regional development of drainage basins etc. need not be held up if functional corporations can be established for unitary regional development of the different parts of the country.

## History of the Concept of Public Corporations

The visions never come true in their original form, but the vision of the producers acting as the trustees on behalf of the community in their corporate capacity and getting a square deal from the latter for the discharge of their functions has inspired many a thinker, economic reformer, social architect and practical administrator. The medieval guilds have been idolized by fervent idealists like Kropotkin as social instruments of economic efficiency, fellowship in production, artistic expression in crafts and advancement in culture and civilization. J. S. Mill in his re-action against the crudities of faith in competition pinned his hope on productive co-operation as a means for the realisation of the twin ideals of social justice and economic progress. The syndicalists in their antipathy to the State and passion for decentralization overstressed the interests of the producers but also foreshadowed some aspects of functional organization of society. The idea of self-governing workshop has, since the exciting episodes in France in 1848, been a favourite theme of social blue-printers in different forms and shapes. R. H. Tawney in his 'The Acquisitive Society' gave a clear picture of functional society as distinguished from acquisitive society—as he designated the profit economy of capitalistic administration,—and envisaged it as a society 'organized primarily for the performance of duties, not for the maintenance of rights and that the rights which it protects should be those which are necessary to the discharge of social obligations.' This concept was more fully developed by Penty, Orage, Hobson and Cole in their crusade for 'Guild Socialism' by which they sought to dispel the prejudice that alternative to individualistic, competitive system was state-tyranny, bureaucratization of industry and economic stagnation. They pointed out that the interests of the community and the producers could be harmonized by transforming trade unions into organization of workers—including technical experts and brain-workers—which

would lease capital from the State and use it 'to make a good job of production' by utilizing fully talent, enthusiasm, team spirit and sense of public duty on a democratic and decentralised basis. Otto Bauer, Kautsky, Afonse Horton, Henreich Strobe and Sankt all favoured 'socialization' as distinguished from 'nationalization'—as a method of public operation of industry by which they meant the formation of public corporations in one form or the other for operation of industries taken over from the capitalistic employers to rationalize production, safeguard the interests of the producers and consumers and introduce 'service' principle in production in place of the discredited profit motive.

The concept of functional organization of industry had, however, hardly emerged from the stage of academic discussion or imaginative social reconstruction when it was appropriated by reactionaries of all types and exploited for putting the clock back by suppressing popular urge for economic emancipation and using the idea of corporate organization of industry as a bastion of vested interests—industrial, agrarian, clerical, chauvinistic and nationalistic. Mussolini was the first of these Princes of Darkness who seized the theory of corporative state and applied it for nefarious purposes of his own to establish his fascist regime, extinguish workers' rights and aspirations and secure the unchallenged ascendancy of propertied interests primarily by rearing 'the jungle of bayonets' but also by such institutional devices as chamber of corporations and also similar contraptions whose practical futility was covered by pompous names and phrases. Hitler borrowed from Soviet Russia the technique of political and economic organization and by changing its animating spirit built his power and military machine to make a bid for world domination; but so far as he had a theory of economic reconstruction, it was mainly based upon the corporate principle of Mussolini which, of course, meant that the workers had to forfeit their rights for the mystic satisfaction of becoming part

of the growing might of the Third Reich and practical solidarity of industry was to be secured by subordinating it to the all inclusive purpose of making them work for *Duetsch Uber Alles* through import or export boards, cartels and trusts which limited the profits of capitalists, restricted their freedom to invest their surplus funds without impairing their real economic power. Franco of Spain, Salzar of Portugal and all other minor Dictators of Europe and Latin America were also attracted by this solidarity principle of industry and so far as the insecurity of their position permitted them, they applied it to repress the anti-Christish organizations of workers and build Christian Guild States which stood for true hierarchical principle of Christianity by ensuring that every one was kept to the place to which he was born and privileged interests were left in undisturbed possession of their property and power.

Besides these fascist perversions of the idea of public corporations there is in the air the theory of 'self-government' in industry which the powerful organizations like the Federation of British Industry in Great Britain and the Manufacturers' Association in U.S.A. are strongly supporting in their schemes of post-war economic re-construction. Their idea of self-government or autonomy of Industry with capital 'I' that they should be invested with authority by the State to determine the amount and technique of production, enter into alliances with their opposite numbers in other countries, fix prices, apply if necessary restrictive policies and have the power to deal with labour in their own way. The present owners of industry are, according to them, to be confirmed in their supreme position and armed with public power to impose their own unfettered will on the shape of things to come. They, of course, pay lip service to the popular slogans like full employment, social security and higher standard of living of the workers and are for international co-operation and practical application of the principles of the Atlantic Charter. They have taken the phrase of

Guild Socialists like Hobson and Cole—self-government in industry—and want to raise it to a new dignity, put it to a different use for increasing their monopoly power and throw all financial risks on the tax-payers while keeping the power of making all important decisions and collecting all profits to themselves. They want to be recognised as self-appointed trustees of the interests of the community and, given the statutory power, to make plutocracy arbiters of the future to a greater extent than ever. This is what their self-government proposals amount to in effect though the real purpose is very shrewdly padded and concealed. They are all for public corporations because their conception of public corporations is private monopolies clothed with public authority.

This brief account of the development of public corporations will, it is hoped, make it clear that the general agreement on the need and utility of public corporations is delusive. They mean all things to all men. The original impulse behind the proposals for corporate or guild organization of industry was to make all rights—including property rights—socially creative by co-relating them to functions and devise methods by which the best in all workers could be harnessed in the service of the community by giving them a sense of fellowship in work, and interest in it by recognising its social significance and importance, throw upon them the responsibility for the management of all industrial undertakings and hold them accountable for their success or failure. In practice, however, this idea has been grossly misapplied in the fascist or the semi-fascist countries and used for extremely retrogressive ends. Its strong appeal to Big Business in all countries is due to its potentialities for evil. It sees in the idea a promise of the prolongation of their monopoly position, confirmation and strengthening of its privileges, resolution of all conflict by statutory recognition of its supremacy and grant of the right to draw upon the public exchequer for large subsidies to inefficient firms or industries which

have been rendered out of date or obsolete owing to the change in technique or economic position. Very great discrimination is, therefore, necessary in assessing rightly the proposals for the formation of public corporations to know their real intent and effect from the point of view of the community. In principle they are a sound method of administration of public enterprizes or regulation, control and co-ordination of private business to secure its adherence to public policy or its observance on a unified basis. But this method, like all methods, is capable of being greatly abused and extreme vigilance is required to prevent its being made a camouflage for the pursuit of anti social ends and purposes.

### Different Forms of Public Corporations

Public corporations have, as already pointed out, to be widely used for a variety of objects. When it is desirable for the State to own and operate economic enterprizes directly, it can do so best through a specially constituted organization suited to the needs and conditions of the enterprize. That is what most people have in mind when they speak or think of public corporations. But there are in existence and are likely to be created boards which can execute public policy and fulfil social purpose by planning, re-organizing, supervising, regulating, controlling, educating, investigating and co-ordinating without actually administering and operating economic enterprises. The Port of London Authority, the Central Electricity Board, the London Passenger Transport Board, the British Broadcasting Corporation in Great Britain, the United Kingdom Commercial Corporation, the well-known T. V. A.—Tennessee Valley Authority—and the United States Commercial Company in the U.S.A., the Railway Board in India and Central Banks in various countries are instances of the operative public trusts which actually administer the services for which they are responsible. But central banks, besides issuing notes or creating credit, managing public debt and doing banking business for

public authorities, are charged with important regulatory functions by which they aid, stimulate, repress and guide the credit policy and operations of the joint stock banks and make them, so far as their control is effective and they are not the tools of financial oligarchies, subserve public ends. There are other instances of public boards which neither own nor manage enterprises but regulate them with a view to enforce public policy and safeguard public interests. For example, the ineffectual Coal-Mines Re-organization Commission in Great Britain, the Inter-State Commerce Commission in the U.S.A., the Sugar Syndicate in Bihar and the U.P. and the various Central Boards created during the war are intended to perform cardinal public functions without undertaking direct administrative duties in their assigned sphere of activities. As stated already, combination of public and private enterprises as a method of development of economic resources in India—which is the official policy of the present Government of India and is likely to be endorsed by its successor even if the latter has greater driving power, earnestness of purpose and regard for the real interest of the country and therefore can effect a considerable change of emphasis in regard to the extent and importance of public enterprise—would necessitate the setting up of a very large number of public boards in order that the country may have a unified economic policy and an even and well-balanced pace of economic development be set up. In the execution of the national economic policy it would be necessary to assume that private business in its allocated zone of economic operations should function as an agent of public policy and any marked deviation from the line and pace of development laid down by the State is rendered almost impossible. Public boards, commissions, corporations and trusts would have to be created in large numbers and diversified in regard to their object, constitution, working and functions with a view to realise the principle of multiple unity in the economic development of the country.

The principle of diversity in unity would make it

essential to make flexibility the keynote of public policy and administration; constructive opportunism based on clear understanding of the goal and its incidents has to be the method of economic strategy and should be supported by integrity of purpose and new spirit in public administration. But granting that it would be necessary to proceed empirically, there are certain issues which will have to be faced in forging these new instruments of national policy and using them to a good purpose. Doctrinaire approach in the accomplishment of this task is ruled out by the nature of the problem and the needs of the situation; but it is worth while to state briefly the more important issues likely to arise in this field and indicate in a general way the lines on which their settlement would probably have to be sought if public good has to be, as it must be, the over-riding consideration in the pursuit of what is really a great public-adventure.

### **Relation of Public Corporations to the State**

The first issue which is, in a way, the most fundamental is the relation of these corporations to the State. In a sense the settlement of this issue is and can be simple. These boards should be autonomous within the broad limits indicated by the need for carrying out the general policy which must necessarily be framed by the State. The general policy cannot be determined by the directorate of the board itself. In democratic countries it has to be decided upon by the legislature and its principles enacted in a legislative measure. Every major decision has, therefore, to be a political act and the directors, technical experts and employees of the board have to accept it loyally and adhere to it in the right spirit. Speaking of T.V.A. Mr. David E. Lillienthal, its Director, makes the following pertinent observation : "A river," he says, "has no politics. Whether an engineer is a Democrat or a Republican, a Conservative or a Liberal, or whether he has any interest in or knowledge of political matters at all is entirely unrelated to his ability to design a dam. In

this sense experts as well as rivers have no politics. But the question of whether a river should be developed is a political question and hence a proper subject of 'politics.' Whether a series of dams should provide only navigation or instead should serve all the unified purposes to which the river can be put—this is a political question, and should be decided by Congress. Rivers, machines, mines, turbines, dynamos have no politics, and technical experts who know how to make most of them have to rely mainly upon their knowledge and ability which are not derived from their political affiliations or allegiance. But facts of nature, knowledge of their potentialities, technique of using the knowledge and ability of scientists and technical experts have all to be related to human ends. They have to be used for social purposes and the latter must be selected, approved and formulated by the legislatures which express and enforce 'the general will' of the community. Politics, in this sense, is the very breath of public corporations and their whole range of operations, from start to finish, must be subject to its 'impact.' Moreover, it is extremely desirable that the men at the top of public enterprizes should be in full and active sympathy with the policy which they have to carry out and understand the social ends which they are designed to promote. Success of public enterprises cannot but largely depend upon their intelligent and enthusiastic co-operation, which means their readiness to use their technical knowledge and experience fully and unreservedly in the service of the object for which these enterprizes are undertaken. In truly revolutionary times, i.e. when a big and fundamental social change is in progress, when a system primarily based upon the pursuit of private interest has to be transformed into a system which makes public good its supreme and all-absorbing concern, the general attitude of the experts towards the social change becomes a matter of crucial importance, for at such times it is very easy for the experts to become saboteurs and under the cover of 'technical' or 'economic' reasons.

introduce politics of their own into the administration of the enterprizes which they are entrusted with by the community, in order to discredit and wreck the new ventures. In this wide sense public corporations and polities are very closely linked together. No public corporation can be permitted to become a state within the State and initiate and execute policies out of accord with the interests of the community as interpreted by its accredited leaders and representatives. This consideration is of special importance in this country for we have to pass in the next few years through a period not only of basic economic but also political changes and cannot afford to let public corporations be used as basis for rear-guard action by anti-national and anti-social interests.

### **Public Corporations and Politics**

In a different sense, however, we have to keep public corporations, free from polities. They will have to be created to manage or regulate public utilities or other industries of public importance and their complex technological problems will call for, in the words of Dr. Robson, 'a spirit of boldness and enterprize' and freedom from 'excessive caution and circumspection.' They will have to be autonomous in the day-to-day administration and in making appointments, buying materials, placing contracts and deciding policies by which the success of these undertakings can be ensured; they will have to be left free and unhampered in the accomplishment of these assigned tasks and without being subjected to the pressure of political partisans or required to adopt manoeuvres which may help the party in power in catching votes or for political stunts of any kind. Parliamentary control will have to be confined to enactment of laws according to which the constitution and functions of these corporations will be determined and to review their operations by agencies and methods specially designed for the purpose. But within these limits autonomy of the corporations has to be made a reality.

technological decisions will have to be left to the judgment of experts and experts themselves accorded a position of dignity, independence and importance. The position of public corporations will call for delicate adjustment of means to ends. They in their aims and policy will have to be essentially political and yet free from politics in the sense stated above. A great deal will depend upon the wisdom, self-restraint and discretion of political leaders and also upon the understanding of the nature of the problem, practical ability displayed and tradition built by the directors of public corporations. It would not be easy to strike a balance between autonomy of these corporations and their responsibility to the community; but the two ends are not only mutually compatible but also complementary and have to and can be combined in the practical working of these new institutions.

### Appointment of the Chief Executive

The appointment of the chief executive members of public boards raises the issue of combining these ends in its most challenging form. It is again easy to state in general terms what needs to be done. The Directorate should consist of men who are pre-eminently fitted for their jobs by their training, ability and experience, have breadth of outlook and intellectual insight to understand the social aspect of their work, have initiative and organising capacity to develop the corporations as efficient instruments of public policy and can inspire confidence in the public and the workers by their gift of leadership. They have to be the generals, of whom St. Simon in France dreamt in his pre-mature utopian plans for providing industry with the services of consecrated leaders. But the main point is not what kind of men we want but how to get them. That they should be eminent, disinterested men with a vision who combine intellectual and technical ability of the highest order with the capacity for dealing with concrete problems of administration is no answer to the practical question as

to how this corps of eminent industrial leaders is to be created and made self-sustaining. How and by whom are they to be appointed? To whom are they to be responsible? What should be their power, i.e. to what extent they should be free to apply and develop their own ideas and yet not become irresponsible despots over the industries which they are to manage and control? These are important questions and it is not possible to give clear cut answers to them. The method which has been more commonly used so far is nomination by the President or the Prime Minister; and if nomination is made solely with a view to get the best men as directors without considering their political opinions or other similar considerations, probably good result can be secured. The other method which can be considered is election by some electoral college subject to the approval of some Minister or President. This method has merits of its own provided the electors are competent to elect suitable men and their number is not so large as to make election depend upon campaigning, demagogery or the will of political caucuses or bosses. But it is not at all easy to suggest a suitable electorate for each industry to be operated by a public corporation. Consumers are generally too numerous, scattered and uninformed to elect the directors wisely and well. Workers in the industry are likely to be swayed more by their own interests than by considerations relating to the efficient management of the industry; and, generally speaking, election of directors by the workers is not to be commended under the existing circumstances. When a large number of industries are being publicly operated, each industry has developed esprit-de-corps of its own and also regard for public interest, men engaged in the industry can be, subject to safeguards, given a share in the selection of the directors. But for the present this method cannot be widely adopted. Probably the best solution will eventually be selection from the cadre of a new public service to be created for managing publicly-operated industries. Creation and development

of this service will take time ; but if it is organised with due regard to the needs of such industries, its members are given special training and develop right tradition and attitude without becoming close corporations, they should be able to produce industrial leaders of the type needed for the management of industries. To start with nomination would probably be the method by which directors will have to be appointed and it has to be exercised in such a way as to rule out as far as possible personal, political or commercial considerations. But once they are appointed, they should not be removable for a term of years except for very grave misdemeanour and given the opportunity to exercise initiative and show enterprise. As the management of the industry will be reviewed periodically and the directors will be accountable for their policy and administration, it is unlikely that they will become unduly autocratic or develop an authoritarian tendency.

### Salaries of Directors

The question of salaries to directors is closely connected with that of wage policy of public corporations. But it also has a bearing on the general attitude of these directors towards their work. In a sense good industrial leaders would be cheap at any price. Much will be expected of them and they will have to work up to these expectations if public corporations are to be a 'success'. That is, however, just the reason why no rational money measures of their services can be adopted. Just because they cannot be paid too much, it is no use depending upon economic incentive alone for securing their services. Economic incentives will have a limited place in working of public corporations, but their relative importance will have to be decreased as we go up higher in the scale of duties and at the top it would be necessary to rely more upon the devotion to duty and the joy of doing a great job well than upon monetary rewards for securing the right men and achieving a high level of performance on their part. In all the professions,

though men enter them, in the words of R. H. Tawney, "for the sake of livelihood, the measure of their success is the service which they perform, not the gains which they amass." The army commanders who win wars are generally better paid than the men whom they lead to victory; but the difference between their income is no measure of the difference between their contributions to the result of the campaign. Army commanders, like all great public servants, are relatively poor; but their privilege and glory consists in saving the nation in critical periods of its history. They give their best not for the money that they get but because it would be dishonourable to do otherwise. The fact that their services are invaluable is the reason why inordinately high money value need not and is not fixed upon them. It is all a matter of tradition, point of view and psychology. There is no reason why men who run railways, manage banks provide public utility services, or organise mining as a public service should not be able to rise to heights at which their monetary reward becomes a secondary consideration and the work and its social importance, comes first, comes second, comes last. There has been a tendency to pay enormous salaries to the men in principal positions in Great Britain and India and some other countries. The Chairman and Vice-Chairman of L. P. T. B., the Chairman of Central Electricity Board, the Director of the B. B. C and the Governor of the Reserve Bank in India are, for example, paid salaries which bear no relation to the salaries paid to the men at the top of other public services. The assumption in assigning such enormously high salaries to the principal positions in these boards seems to have been that without such salaries it would not have been possible to attract men of first-class ability to them from the corresponding position in private business. The difficulty was possibly real, but on principle payment of such salaries is a wrong policy and cannot be justified as a long-term measure. The President and members of the Railway Commission, the Power Board, the Coal

Mines Re-organisation Commission and similar other public bodies should be expected to acquire habits of thought and standards of conduct of men in the highest position in other public services. They should not be 'commercialized' by adopting 'salaries de-luxe' scales for these public undertakings; but it should be recognised that they are public services in the best sense of the word and true spirit of public service should filter down from top to bottom.

### The Staff Officers

The considerations referred to in the above three paragraphs apply not only to appointment to the Governing Boards but also to the entire cadre of staff officers of these institutions. They will not be technocrats, but men who can combine technical ability with social understanding and insight and are men of culture in the real sense of the word. They will have to be men versed both in 'liberal' arts and technique and their special knowledge will have to be related to social ends for which it will have to be harnessed. This will necessitate a change in the system of technical education, and engineers, industrial chemists and technologists of all sorts will have to be given a broad outlook and understanding of social problems. Moreover, it would be necessary to integrate these services by adopting scales of salaries, methods of recruitment and promotion and requirements of qualifications which will give to these services new outlook and new standards. The methods of business will have to be so devised as to improve speed of action, inculcate boldness and initiative and cut out 'red-tape' and the technique of evasion of responsibility now so common in the existing public services. Opportunities will have to be provided for upgrading of men from below, i.e., for making it possible for men who begin low to work their way upwards through bursaries for further studies and similar other devices and by enabling men of outstanding ability to rise fast

to the position of trust and responsibility. Security of tenure, which has a deadening effect on originality and sense of adventure and puts a premium on conformity as the most desirable virtue will have to be modified to the extent of stimulating staff officers to be constantly on the move and retain and develop the habit of mental alertness and sustained interest in improvement and innovation. This does not merely mean the introduction of a reformed civil service but of an entirely new functional service for doing the work of management, control and co-ordination in public corporations. It would neither be possible nor desirable to let each public corporation have a socialized service ad hoc. Hide-bound uniformity is obviously undesirable but it should be possible to combine flexibility with unity of outlook, standards and mental and technical equipment of personnel.

### Real Economic Democracy

The position of workers in the administration of public enterprises requires very careful consideration. They cannot be managed by ballot-box democracy. The workers cannot be given the right to appoint, chastise and remove their directors and staff officers. The experience and practice of economic administration in Soviet Russia confirms the general view that though good-will and co-operation of workers is essential for efficient and progressive management of public enterprises, economic democracy does not mean the introduction of the whole apparatus of the choice of industrial leaders through the casting of votes. The whole parliamentary system is, it is well-known, being subject to severe strain owing to the voter being required to elect men for dealing with problems which he can neither understand nor is interested in as living issues; and the need for revision of democracy is widely admitted even though no one has still suggested any workable and acceptable method of introducing the necessary change. Vast majority of men are, as Aldous Huxley has stated, born disenfranchised by nature, and this fundamental fact has

to be reckoned with by all believers in and reformers of democracy. But apart from the all-important consideration, it is clear that the directors and staff-officers of public corporations cannot be elected or made removable by the suffrage of workers. They must be men who owe their position to qualification, work and judgment of their peers. This is not an anti-democratic view. It is the affirmation of the principle that polling booth is neither the essence nor the most significant attribute of democracy.

What is necessary for real economic democracy is that merit should be the only basis of recruitment, and promotion in all public or publicly controlled economic enterprises and money should have no pull whatsoever ; and workers of all grades should feel that there is a fair field for all and no favour. The workers should have the right and opportunity to express their opinion and critical appreciation of the methods and standards of management and an effective economic ladder should be provided to enable men of worth to climb to the top. The wage scales should be based upon standard of living wage and differentials corresponding to the differences in efficiency, and rigid social demarcations eliminated by making it obligatory for the men at the helm to infuse a spirit of fellowship by precept and example into the personnel in order that corporations may really have a corporate life of their own and not merely be legal fictions or institutional devices for stereotyping economic divisions. Recognition of the principle of leadership in its best sense is essential for efficient management of public enterprises and bureaucratic mediocrity should be definitely discouraged and discounted ; but it should not mean, as James Burnham in his widely read book 'The Managerial Revolution' says it does mean, 'drive for social dominance, for power and privilege, for the position of a ruling class by a social group or a class of managers'. James Burnham in his interpretation of contemporary tendencies overlooks the fact

that this drive is the incident of or rather reaction against irresponsible money power which is dominant at present. That the same tendency exists also in Soviet Russia is a debatable point which has still to be established. In an age of technology and extremely complex civilization it is inevitable that the men, who have the necessary ability and qualifications for key positions, should come to the fore, and become the lever of organized social life. But this need not mean and if the mankind does not take a wrong turning when it is at the cross-roads of its history, it will not mean, technocracy—the rule of a new oligarchy of technical men who know mechanics, dynamics, chemistry but are without social vision or understanding of social dynamics. The risk of the technical experts becoming all-powerful is there, but successful social engineering requires that leaders of industry should be, not the pioneers of a realm of 'social frontiers'—the type which has been thrown up in U.S.A. and elsewhere—pugnacious, combative and aggressive—but architect of a public economy in which public good determines its direction, methods and purposes. The workers can be sure of a square deal in this economy—can expect fair wages, equal chance for all and a position of dignity and social significance, i.e., they can enjoy the benefits of real economic democracy without making the board of directors of public corporations a responsible cabinet of each industry in the parliamentary sense of the word.

It follows from the argument developed above that public corporations should not be capitalistic as such. The corporations will need large capital when they are operative concerns; but whether capital is provided by the State from the surplus funds or borrowed by the Treasury, Public Investment Board or the Corporation itself on the security of its own capital assets or earnings, moneyed interests should have no share in the shaping of its policy and management. The private creditors, if any, should be in the position of debenture holders

entitled to the payment of a fixed and low rate of interest and have no say whatsoever in the decisions and working of public corporations. It is admitted that shareholders of joint stock companies are only titular owners of the concerns in which they invest their money, and directors' responsibility to them is only nominal and the latter are all but absolute masters of the undertaking, except in name. Ownership of capital is no qualification for position of supreme authority in the management of economic enterprizes or a measure of ability to run them well. In all publicly-controlled concerns it would be necessary to separate different elements of property rights and leave to capitalists only the right to a low rate of interest without any title to control or residual profits, but in all public corporations which are directly managing industries the principle that money is no test of ability to manage them will have to be accepted in its entirety and recruitment to the highest post made on the basis of publicly tested ability and qualifications. When an 'industry' to quote from R. H. Tawney again, is conducted, not by the rude energy of the competing employers who dominated its infancy, but by the salaried servants of the shareholders, the argument for private property which reposes on the impossibility of finding any organization to supersede them loses its application, for they are already superseded." Public corporations have to be organized to supersede 'the argument for private property,' and as an alternative to joint stock companies which are the means by which public resources are used at present by a comparatively limited number of individuals to enrich themselves and magnify their power.

### Public Accountability

Accountability of the principal officers of the public corporations has to be the basic principle of their administration. They should be autonomous but not irresponsible. Various methods will have to be adopted to enforce public accountability of these enterprizes. They should

be required to submit full and revealing periodical reports in which no information necessary for forming a judgment on the standard of efficiency or adequacy of the methods of management should be withheld from the public; and these reports should receive wide and well-devised publicity. Their management should also form the subject of public inquiry by competent public commissions from time to time and these inquiries should be thorough and searching to bring to light the inner workings of these corporations, to give them an incentive and a measure for keeping up to scratch and provide against the introduction of any narrow monopolistic tendency in their policy and administration. The tendency to develop secretive policies with a view to safeguard their own position and exaggerate their own importance and gains at the expense of the community is inherent in all corporations, and has to be counteracted by taking measures specially designed for the purpose.

Experience would probably suggest other methods by which narrow, anti-social and acquisitive tendencies of public corporations can be repressed. There is one method which has been suggested already and has been approved also by the Bombay planners, which deserves special consideration for this purpose. An Audit Commission should be constituted to conduct what is called efficiency audit from the standpoint of the community. It should act, as Dr. W. A. Robson puts it, as the eyes and ears of the general public. Audit to which the joint-stock companies are subjected is really no audit at all. It is merely a narrow accountancy check which serves a very limited purpose which too in practice is often defeated. Efficiency audit should test efficiency from a very wide social standpoint and prevent backsliding from the recognised standards and requirements of public administration of economic enterprizes. Its object has been well described by Dr. Robson and can best be stated in his own words. "Its objects would be to

ascertain whether a board was conducting its work well or feebly, to call attention to merits or shortcomings, to make suggestions for improvement—such a body would consider the character, quantity and quality of service rendered ; price policy and efficiency of administration ; personal question including pay, recruitment and methods of promotion ; relations between the board and the consumer ; capital expenditure and methods of financing it ; in short all the most important problems involved in a socialized undertaking." The Audit Commission will itself be a public corporation and require a specially trained staff of officers for the important work which they will have to do. There will be very little in common between the audit officers of public accounts to day and the officers referred to above except perhaps their name. The audit officers of to-day are known for their mechanical adherence to rules and regulations and prevent waste, if at all, to a very small extent. The officers of the Audit Commission will have to work upon entirely different premises and act as guardians of public polioy, develop a body of case-laws in the light of experience and stimulate the public corporations to standardize technique and administration at the highest level. This they would and could do only if they realise that they are an agency not for saving pennies but for raising economic administration to the highest point of social efficiency.

### The Financial Policy

The last point of general interest which needs to be considered is the right financial policy of public corporation. These bodies will be service institutions and not profit-earning concerns. The calculus of their efforts and result, will, therefore, have to be entirely different from that of ordinary business firms. They will measure cost and utility in terms of public welfare and financial considerations will have to be subordinated to the *raison-d'être* of their existence. But this does not mean that they will be indifferent to finance or disregard what

are called tenets of financial propriety in their true sense. In their price policy wage structure being determined by social criteria, i.e. on the assumption that human labour is not a commodity and must be paid for at rates sufficient to provide a decent wage for workers, and differences of wages should correspond to differences in efficiency, the main element of cost will be socially determined and economy in it will be realised only by the introduction of better technique and organization. The other element of cost will be interest either as an accounting item when capital comes from public funds or an outgoing the amount of which will depend upon the rate at which interest is stabilized by the State. To these will be added the cost of raw materials and depreciation allowance. The latter will depend upon the intensity with which capital equipment is used and the former, i.e. cost of raw materials, though variable owing to their being provided by private firms to a certain extent will be increasingly determined by public policy as wages and profits are, by the extension of public control over the whole range of economic life, stabilized and socially fixed. Cost of production of public corporations will, therefore, conform to social norms and be predictable within fairly narrow limits. The cost will have to be covered by the prices charged for the supply of goods and services and prices as a rule will just cover the cost. Increase in the demand for goods and service will not mean higher prices but the exhaustion of stocks or pressure on services will be an index of the need for extension of production and consequently mean lower costs and prices in most cases. And the reduction of demand will, through accumulation of stock or surplus capacity for rendering service, will not mean fall of price but possibly its rise owing to the contraction of production. In either case prices will not vary owing to changes in demand to any considerable extent and supply, so far as it is under the control of public corporation, will keep pace with the variations in demand. This will lead to stability of prices owing to social determination of the basic facts of

cost and monetary factors will operate to carry out social policy which will neither be distorted nor determined by currency fluctuation. The work of monetary management will become increasingly simple and money become more and more neutral in its operation, i.e. it will express and indicate rather than disturb or determine the balance of social forces. Price policy will depend upon social policy and if the latter is competently decided and executed, prices will not be the cause of economic changes but their result. In some cases the State may charge prices below cost and in others realise net surplus. In the first case it will have to subsidize the industry concerned while in the other use it as a tax-collecting agency. But in neither case will price mechanism govern production. Public corporations, as public enterprize is extended, will determine their own price policy, find it easy to master the disturbance caused by the monetary factor, and make finance a subsidiary consideration, i.e. a true servant of the community.

### The Need for a Central Co-ordinating Agency

Public corporations, as their numbers and activities increase, have to be inter-related and co-ordinated. Each of them cannot be a realm in itself. They will necessarily come into contact with one another and of course exist for the consumers, i.e. the general public. It will not be possible to operate each corporation as a self-contained unit or develop its activities without considering the position and policies of other corporations. A central co-ordinating agency, by whatever name it is called, will, therefore, have to be created which will remain in close touch with all public corporations, act as a clearing house of information, pool knowledge and experience, determine economic priorities and unify the administration and development of all public and publicly-controlled (i.e. also of all private) enterprizes. Economic planning being the accepted policy of the country, there is no need to stress the importance of a central co-ordinating agency. There can be no planning without a planning

authority and public corporations being instruments of planning will naturally function under its superintendence, direction and control. Public corporations are not meant to protect the producers, stabilize status quo or save them from distress due to economic fluctuation, price changes or the pressure of competition. They are not or rather should not be the monopolists' device to conserve the gain or shut out competition. They have to become instruments of a socialized, though not socialist, economy and must therefore have their activities harmonized and co-ordinated. There is no need to say more on this point. There has to be a public corporation above all public corporations, coping stone of functional structure of new public economy. It will have to devise its own technique of co-ordination, work out social norms and standards and create its own nervous system by which it can have messages transmitted to it from the most outlying points and to which it can send messages, directives and pointers after assimilating, fusing and transmitting the essence of all messages received by it. Composition, constitution and procedure of work of the central organ will require very careful consideration. It too will be a functional institution, i.e. it will not exist for the power that it possesses but its power will be defined and limited by its function to work for multiple unity—to create conditions under which benefits both of order and freedom or ordered freedom can be fully realised. There can be no question of making this body a law unto itself. It need and should not be an authoritarian organization. It will be subject to social audit and, of course, work under the control of highest representative institution of the country, the supreme legislature.

There are many other points which could be raised and discussed in dealing with the position and prospects of public corporations; but the more important points have been briefly considered above and general guiding principles, which are likely to be found useful, enunciat-

ed. Public corporations will, in actual practice be formed at a time when this country and the world be in a state of flux, our country even more than most of other countries of the world. In creating each corporation we will have to deal with concrete facts as we find them and cannot possibly start with a clean slate. It would, therefore, be necessary to adapt the application of general principles to the facts of each case and make public corporations flexible instruments of a new public economy. But the need for adaptation does not negate the value or utility of general principles. Without them we will be lost in a wilderness of facts. Now a clear sense of direction is more essential than ever if we are to get out of the woods and create a system which will work and endure.

The studies in this book are intended to focus public attention on one of the most important problems of the day. Four of them are accounts of the constitution and working of public corporations which are already in existence and the last contains a proposal for the creation of a public commercial corporation for this country. They are mostly factual studies—describe the constitution, resources and activities of these corporations and their utility is increased by the fact of their being based upon the first-hand knowledge of the working of these undertakings. They will give the readers an idea of the extent, variety and importance of their activities. It is clear that these public concerns are not merely emergency devices to deal with the war situation. It is very likely that they will continue to function for a long time and there is every chance of their becoming permanent institutions. Mr. Agarwal in making out a case for constituting a public commercial corporation for this country has rightly assumed that the U. K. C. C. is certain to survive the war—an assumption which is borne out by the statements of Mr. Heatherington with regard to the future of the U. K. C. C. We are, it is fair to take it for granted, in for a regime of Arcoses in

international trade and must have an institution of our own to deal with them on terms of parity. A corporation of this kind is needed not only as a measure of economic defence but also for fitting in our foreign trade into the whole scheme of economic development of the country. The Inter-American Development Commission and the Development Corporation of Chile are very interesting instances of multi-purpose development corporations which have already important achievements to their credit and are likely to grow in importance in the immediate future. These and similar other studies serve a very useful purpose. They give us an insight into the working of institutions with a great future and indicate how far they contain in themselves the seeds of future development. The institutions like the U.K.C.C. have caused uneasiness both at home and abroad and can disarm suspicion only if they imbibe the spirit of international co-operation and work for the aims on the realisation of which the peace of the world depends. Other National Corporations have also aroused misgivings and several of them are known to be working for sectional ends. The beneficence of an institution of course depends upon the spirit with which it is worked ; and it still remains to be seen whether public corporations which were created during the war or were operating before it will develop into instruments for shaping a better future or become strongholds of privilege and reaction for continuing the policy of economic militancy in national and international spheres. The conditions necessary for developing these corporations into instruments of social harmony, economic development in the interest of the people at large and international co-operation have been outlined in this introductory study. The fact that these conditions have, in the main, still to be created is a task and an opportunity which requires daring, understanding and constructive leadership of the highest order. If these are available, public corporations will become true pillars of peace, security and progress.

## Public Corporations as a Facade for Reactionary Policies

It has, however, to be stated in conclusion that the immediate prospect is distinctly depressing and there is danger that public corporations will be formed and multiplied as a facade for the pursuit of reactionary policies. These will become a real menace to social and international peace and the hopes of the ardent advocates of these institutions will in practice turn out to be a delusion and a snare. It is not what they are called but how they function that matters; and if the monopolists, armed with public authority and with public assistance, constitute themselves into corporations for the pursuit of aggressive economic policies from the social and national standpoints, they will become a real danger to public good and promote only their own narrow sectional policies. It is therefore necessary to watch vigilantly all proposals for the formation of public corporations and learn to discriminate the substance from professions and reality from appearances. It is the common trick of wolves to put on sheep skins and of self-seeking monopolists to pose as protagonists of general good. After the disastrous experience of Fascists in Germany who used left slogans to prop up and consolidate property interests and the adoption of similar ruses by the same interest in all countries, the advocates of public corporation as a form of economic administration have to be on their guard against being taken in by their own phrases and arguments being ingeniously used to defeat or pervert their real purpose. The Federation of British Industries in Great Britain, the Manufacturers' Association in U. S. A. and our own powerful managing agencies have learnt the technique of concealing their real intention with great success. The danger of their setting up private monopolies in a more effective form under the cover of corporate guilds or autonomous public trusts is real. Let us be sure that we do not get Mussolini's

corporate state in the name of ad hoc functional corporations.

The danger can be averted and the real purpose of public corporations fulfilled only by organizing and strengthening democratic forces and exposing every attempt to palm off spurious imitations of genuine public corporations on the public. The only safeguard against this unwelcome development is an alert and organised public opinion. Without it in this, as in all spheres of public interest, we will find ourselves outwitted and over-reached by designing and well-entrenched vested interests.

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## CHAPTER 2

# THE UNITED KINGDOM COMMERCIAL CORPORATION

BY

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Foreign Trade under war conditions obviously cannot be conducted in the traditional manner of peacetime, and strategic considerations may necessitate the adoption of new techniques in the direction and control of trade. It is in this respect that the United Kingdom Commercial Corporation which was founded in April, 1940, two years earlier than the United States Commercial Company, has served as an important instrument for the implementation of national policy. From the information available it may be concluded that the UKCC has been an exceptionally flexible weapon of economic warfare, and, at least indirectly, a substantial amount of credit for various diplomatic and military achievements may undoubtedly be attributed to it.

The detailed operations of both the United Kingdom Commercial Corporation and the United States Commercial Company have necessarily been closely guarded secrets, but the importance of these two organizations in the war effort can be disclosed by reference to their general character and the ramifications of their operation. In fact, a review of the UKCC's operations during the past four years is a description both of the changing nature of the war and of the alterations in British trade policy. Furthermore, British experience with this type of trading organization may well have some bearing on

certain phases of the future structure of international trade, at least during the transitional period following the cessation of hostilities.

### Inception, Early Activities

The Corporation was established in April 1940 with the primary aim of preventing as far as possible any further economic penetration and domination of the Balkans by Germany. It is quite obvious that under the existing circumstances ordinary private commercial enterprise could not stem the tide, and that a more powerful agent responsive to governmental policies was needed to carry on negotiations for the expansion of Anglo-Balkan trade whether on a barter basis or through clearing arrangements with the countries concerned. It was not intended, however, that the Corporation should supplant existing trade channels, but rather that it would utilize them as far as was possible.

Although the capital was to be subscribed by the British Treasury it was clearly stated that the company would work as an independent legal entity subject only to general consultation with the Government on broad lines of policy. In order to enable freedom of action, however, it was given very wide powers of operation, while the existence of Government backing opened the way for it to take far greater financial risks than private concerns would have felt able to take even under peace conditions.

Some confusion was created at the very beginning by the difficulties of finding a suitable name for the organization. The name "Balkan Trading Company" which seemed quite apt was rejected on the grounds that it might circumscribe future expansion in other regions and on the further grounds that the name chosen should be such as would identify the company as British. The name "British Commercial Corporation" was ruled out under British company-law regulations because of its similarity to names of companies previously registered.

The name finally proposed, "English Commercial Corporation, Ltd," was announced by the Chancellor of the Exchequer on April 4, 1940, but almost immediately Scottish members of Parliament raised an objection and the name was changed to "United Kingdom Commercial Corporation, Ltd." Despite the constant use of the term "commercial" as a part of all names suggested, it is doubtful whether the project was ever conceived of as a commercial proposition, although the company may have come somewhere near commercial operation during the early days of the export drive.

Barely had the UKCC begun operations before it encountered far greater difficulties than had been originally anticipated. The effectiveness of the "blitzkrieg" in Western Europe enhanced Germany's prestige and power in many parts of the Balkans, while the entrance of Italy into the war hampered and jeopardised communications with the Balkans through the Mediterranean. Nevertheless, the Corporation pushed its way, obtaining a monopoly in the sale of selected products of the Empire to this area, and, since there was a fairly brisk demand for these commodities, it was possible to arrange an exchange. Even though it was virtually impossible to transport goods to Britain on a large scale, the UKCC, by taking Balkan products and arranging for their storage in the Middle East, was able to divert produce from Germany.

To what extent these small transactions proved of military and diplomatic assistance cannot be fully ascertained until after the war. Had the UKCC been incorporated earlier or granted a little more time in which to broaden its scale of operations and gain experience, the results might well have been more than proportionately greater. The rapid advance of the Axis, however, soon drove the UKCC out of this field of operations, and, in a few months, of the original six countries in which the Corporation had planned to work only Turkey remained free.

### Reorganization and Expansion

This sharp blow might have resulted in the complete abandonment of the UKCC as many critics suggested, but instead the Corporation was further strengthened and the scope of its operations enlarged. The Ministry of Economic Warfare, which had been the agency in charge of pre-emptive buying, brought the Corporation partially under its auspices as an agent in foreign areas, while the Ministry of Food began utilizing its services in procuring food imports from certain areas.

The collapse of the Balkans had, in addition, brought the whole Middle East into greater prominence, and the UKCC rapidly built up an extensive organization in this area. Eventually, the Corporation was employed wherever the bulk sale or purchase of goods abroad was deemed essential to the carrying out of some particular line of British governmental policy.

By January 1944 the Corporation and its subsidiaries were operating in Aden, Argentina, Ceylon, Cyprus, East Africa, Egypt, Eritrea, Ethiopia, India, Iraq, Libya, French North Africa, Palestine, Persia, Portugal, Spain, Sudan, Syria, Tangier, Turkey, and French West Africa.

From its inception the UKCC has occupied an anomalous position—Government-owned yet possessing a board of directors who, with the exception of Sir Frank Nixon, Comptroller-General of the Export Credit Guarantees Department, have been drawn from the business world, and in their numerous directorships represent a cross-section of British industrial, commercial and financial interests. There are a few others like Nixon drawn from the ranks of the Civil Service who are employed by the Corporation, but for the most part the UKCC is staffed by men previously engaged in commerce or finance.

In its capacity as a legal entity the Corporation has operated with a large measure of freedom in the conduct

of commercial transactions, but with varying degree of responsibility to the Government as agent for Governmental branches and also to the Government as the sole owner and source of funds.

There has been very little change in the composition of the Board of Directors since the beginning of the organization, barring a natural enlargement and a greater number of managing directors as the scope of activities increased.

With the extension of the undertakings, separate subsidiaries were established for particular operations in various areas and countries. The first of these was the "UKCC (Spain)" which was registered in October 1940. Subsequently subsidiaries were established for trading with Turkey, Palestine, Sudan, Egypt, East Africa, Eritrea, Iran, Syria, Iraq, Ethiopia, Iceland, Portugal, and Argentina, and with three exceptions the names of the subsidiaries followed in the same pattern as the one for Spain. In Iceland the subsidiary trades as the Arctic Trading Corporation, in Argentina as the Corporacion Britanica Sociedad Anonima de Fomento Commercial and in Iran as the Irano-British Trading Company.

In most instances, the subsidiaries were incorporated in the countries where they are active, but, together with the parent company, they have head offices in London to which field agents and representatives are responsible. In addition, however, there was established the English and Scottish Commercial Corporation which has served as a non-operating company in which the financial activities of all the entities have been centralized.

The UKCC has secured its funds entirely from the British Treasury and is responsible to the Treasury, although in its commercial and operational aspects the Corporation has been represented in Parliament by the Board of Trade. The Committee of Public Accounts in

its Report issued in October 1943 took the occasion to point out that "very large sums" had been issued to the Corporation and its subsidiaries out of the funds provided by Parliament, but that the expenditures had been wholly exempted from control and examination on behalf of Parliament. The Committee added that it did "not think that the main functions and objects of the Corporation can now be correctly described as commercial."

By agreement with the Treasury, however, the Committee was able to work out a solution whereby the books would be accessible to the Comptroller and Auditor General who would also be furnished with copies of the audited accounts. In addition, the Treasury Accounting Office would bring members of the Board to meetings of the Public Accounts Committee to give full explanations of the details of transactions undertaken by the UKCC with public funds.

From this it would appear that the Corporation has now come under a greater amount of Parliamentary control than was previously exercised.

### Operations in Middle East

The UKCC through its subsidiaries has played a vital role in the organization of the economy of the Middle East in its capacity as the operational agent for the Middle East Supply Council. The organizational structure of the UKCC in this area has differed to some extent from that for other areas, however, and a greater degree of local co ordination has been achieved. The eight subsidiaries operate under the general supervision of a Middle East Board of Directors located in Egypt, but the respective Boards of Directors in London still are held responsible for the policies followed by their particular subsidiary corporations. The Middle East Board is also responsible to the UKCC in London, to the British Minister of State and the Middle East Supply Council in Egypt, and derives its powers from the UKCC.

In this area the importance of pre-emptive buying as a weapon of economic warfare has never been as great as it has been in Turkey, Spain, and Portugal. The most important task of the UKCC here has been alleviating the related difficulties of disposal of domestic produce and providing the Middle East with necessary supplies under the general direction of the Supply Council. In the early period the UKCC had to contend with a serious shortage of shipping space, which made it virtually impossible to import large quantities of commodities into the area or export surplus goods which had been cut off from their normal market by the extension of the war.

Under the plan devised by the Supply Council the UKCC became the distributing agent for wheat, sugar and fertilizers on a monopoly basis, selling these commodities to the Governments concerned, from which point further distribution was controlled under strict Government rationing schemes. Other essential goods were left to private enterprise, except where the services of the UKCC were obviously required, and even then private channels were employed as far as possible.

At the same time the UKCC took over surplus commodities from the countries of the Middle East, either holding them or arranging for their sale elsewhere. In this connexion, and also as a means of economizing in the use of shipping, the UKCC actively promoted schemes for the development of intra-area trade—for example, the exchange of commodities between the countries comprising the Middle East and other nearby areas—and in order to encourage this trend the Corporation acted as a clearing or marketing agent.

Furthermore, British policy sought the promotion of a greater degree of self-sufficiency within the Middle East as an emergency measure, and as part of this programme the UKCC brought in fertilizers to increase the productivity of local agriculture and assisted in the extension of local industry along particular lines. The

UKCC bought hides from East Africa and the Sudan to supply leather factories in Iran which in turn were engaged in producing boots for the Russian Armies. Contracts were also placed in Palestine for leather goods, tents, ropes, matches and glycerine.

In addition, the Corporation sponsored a scheme whereby Palestine would be able to satisfy the needs of the whole Middle East for superphosphate fertilizers and certain heavy chemicals.

In these two phases of the major campaign the UKCC and the Supply Council have set in motion certain trends which may well continue after the war and thereby provide a basis for a substantial expansion in the economic activity of the entire region.

### In Turkey, Spain, Portugal

The importance of Turkey as a block to further German penetration to the east was recognized even before the Balkan collapse, but with the collapse it became even more vital to strengthen the economic ties between Turkey and the anti Axis countries. In the early stages of its activities in Turkey the UKCC representatives found Turkish producers ready and willing to sell their products but unwilling to accept payments in sterling unless it could be used immediately. In conjunction with private traders the Corporation managed to gather four shiploads of commodities which could be sent to Turkey in exchange for Turkish products, and this task was accomplished at a time when Britain itself was not well supplied with essential goods. By September 1942, however, the activities of the UKCC in Turkey had increased so greatly that it was reported the central office found its quarters inadequate and had moved to another location, taking over the whole of a five-storey building in Istanbul.

The UKCC made purchases in Turkey of copper, skins, mohair, hemp, valonea, flax, olive oil, sultanas and

raisins. Exclusive of chrome and tobacco which were handled in another fashion, the total value of reported purchases between March 1941 and September 1942 amounted to about £ 9,000,000, although all of the commodities had not been delivered at that date, some of the purchases being on the basis of future delivery.

In the same period of time commodities imported into Turkey by the UKCC were estimated to total £8,500,000, and included wheat, barley, steel, rubber tyres, machinery, and chemicals. The Istanbul correspondent of the London *Times* reported that, but for the improvement of harbour facilities at Alexandretta and Mersina by a British firm commissioned by the UKCC to do the work, the inflow of goods would have exceeded the discharging capacity of the ports.

In Spain and Portugal the UKCC was even more active in waging economic warfare against the Axis, as evidenced by the bidding up of the price of Portuguese wolfram from £300 to £6,000 per ton. During the severe winter of 1941-42 agents of the UKCC were reported as forestalling the Germans in buying up warm woollen clothing which was urgently needed by the Axis for its soldiers on the Russian front. In addition, the UKCC bought Spanish oranges and Portuguese sardines for the Ministry of Food, and in return supplied these countries with wheat bought in Argentina, cotton bought in Egypt, sugar bought in the West Indies, and the like.

Operations for the Ministry of Food were not strictly pre-emptive buying, but they did represent a method by which the supplies available for Germany might be reduced, while at the same time these countries were aided in withstanding German pressure which otherwise might have been greatly strengthened.

### Other Operations

There was a substantial expansion in the work of the UKCC following the German attack on the Soviet Union. In the Middle East the immediate problem was

one of vastly improving the natural supply route through Iran, and the UKCC was placed in charge of organizing and supervising this task. It acquired locally or in the United States a fleet of thousands of trucks, established garages, repair shops, and rest centres, and recruited and trained some 8,000 Iranians as drivers, loaders, and other essential workers. As a correspondent of the London *Times* wrote, "One cannot travel far anywhere on the roads of Persia without meeting a UKCC lorry." Furthermore, the UKCC was utilized as a procurement agent, independent supplies moving under mutual aid and military agreements, in equipping the Soviet Union with essential raw materials for industry.

The extent of the Corporation's activities elsewhere cannot be ascertained at this time, but there is little doubt that they have been considerable. With the declining importance of pre-emptive buying the Corporation has more and more become a mechanism through which supplies may be moved and trade carried on. It has co-operated with the United States Commercial Company in its operations, which has made possible the avoidance of competitive bidding for materials which were needed by both. In the words of Sir Francis Joseph, Acting Chairman of the Corporation, "When the full story of our activities can be told it will be found that we have done a worthwhile job . . . ."

### Post-War Position

Although the UKCC was brought into being as a wartime organization it possesses considerable potentialities for utilisation in the post-war period. The extent to which it will be used, however, depends quite largely upon the attitude taken by the United Kingdom and other countries toward the structure of international trade. In any event it has been kept constantly in mind that an important aim of the Corporation should be to preserve good will for Britain in overseas markets. The complaint has occasionally been heard that the

UKCC has encroached on the sphere of private trade, but as a correspondent of the London *Times* has commented. "...In its semiofficial task of making sales or purchases which are in the public interest and have to be completed without regard to profit or loss, it has frequently secured trade on terms which no private merchant would touch. It is equally clear that it has often put business in the way of private firms, its cardinal policy being to make use of existing trade channels wherever possible. It supplies a form of assistance to trade which may well prove a national asset in peacetime, and which will certainly have to be maintained in some degree or other if British exports and British prosperity are to be kept at the highest possible level."

It is very likely that the Corporation will continue to operate at least during the period of transition and de-control, and that after that time the degree to which it will be scrapped as an active agent will be determined by the state of the British balance of international payments. Undoubtedly it will have a task in absorbing surpluses of goods and raw materials, and in this sense acting as a commodity reserve agency, and possibly also have its activities confined to particular areas where it may serve as a developmental agency.

These statements are not to be taken, however, as indications of what the Corporations will do but rather as *possibilities* which may find expression according to the circumstances then prevailing.

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## CHAPTER 3

# UNITED KINGDOM'S NEW FINANCIAL CORPORATIONS: F.C.I. AND I.C.F.C.

BY

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### I

What has been hailed as "a constructive step towards the solution of Britain's post-war financial problems" was taken with the recent formation there—announced by the Chancellor of the Exchequer in the House of Commons on 23rd January, 1945—of two finance corporations, the Finance Corporation of Industry, Ltd. and the Industrial and Commercial Finance Corporation, Ltd., for the purpose of financing British industries after the war. It is a step, which represents a notable change, albeit only implied, in British conception of the relations between banks and industry. For, the aloofness of British banks from long-term industrial financing is well-known as being in sharp contrast with the relations between banks and industry generally in many other countries, both on the continent and elsewhere. The provision of long-term capital for industry has, indeed, never been an important function of banks in the U.K. It is seldom, or not at all, that the great deposit banks of England have been known to participate in industry. This is because of the deep-rooted belief of British bankers that there must be a clear-cut division of functions between institutions doing ordinary banking, that is commercial banks, and those out to finance industrial ventures, the underlying theory obviously being that, as the

liabilities of commercial banks are mostly in the form of deposits withdrawable on demand or at short notice, they should be represented by easily realisable assets, or "liquid assets" as they are called, and not locked up in the form of not easily callable long-term advances to industries. This attitude of British banks towards "mixed banking", or a system of banking under which commercial banks combine industrial banking with ordinary banking, seems to have had some recognition in other countries after the depression years, when, as a result of the experience gained during the depression, many of them actually enacted legislation discouraging "mixed banking".

With British banks set so much against "mixed banking", it was only to be expected that the existing facilities for provision of capital or internal financial requirements to industries, especially on a long-term basis, were far from adequate.

There are historical reasons for this attitude of British banks towards industrial financing. Before the Industrial Revolution, whenever there was any opportunity for industrial investment, such was taken advantage of by merchant capital, or capital in private hands arising from profits in foreign trade. It is obvious that the terms on which the merchant capitalists must have provided finance to industrial undertakings in those days could not have been anything but onerous. Many shrewd industrialists took care accordingly to shake off dependence on such financiers at the earliest possible opportunity, and they did it by ploughing back into the business a portion of their profits and thus building up reserves. This policy is even to-day the characteristic of a number of British industrial undertakings. It is evident as much in this country as in the U.K. As important as the merchant capitalist was the private banker in the chief industrial areas. He, of course, accommodated only the small but promising firms with capital to expand business. As for larger companies, money was

being raised by public issues in the London capital market. The work of financing the medium-sized, as also the smaller ones on many occasions, was largely done by solicitors and accountants who brought together business in search of funds and prospective investors. One more peculiar form of finding finance for industries in the U.K. was that practised by the cotton mill industry. It was common for a cotton mill in need of capital, we are told, to issue shares, which were largely unpaid, to small investors, including its own workers, and then to borrow money at call on the security of these unpaid shares.

It is thus seen that the facilities available for industrial financing were alike haphazard and incomplete. Obviously, the realisation on the part of British banks that their financial structure made them unsuitable instruments for industrial financing made an otherwise suitable agency contribute little to fill the gap. We need not, in the course of this brief article, concern ourselves with whether or not such a gap has existed, for that question has been fully discussed by competent bodies like the Macmillan Committee. The experience of the depression years—e.g., a legacy of frozen advances—the founding of the Securities Management Trust and the Bankers' Industrial Development Co., the Report of the Macmillan Committee, and the action taken on the recommendations therein are eloquent evidences of the prevalence of such a gap—or is it gaps? An even more convincing proof, if one were at all needed, is to be found in the slowly changing attitude of the banks themselves. Both in having participated in the Bankers' Industrial Development Co. in the thirties, and in now having associated themselves with the new finance corporations, they have come out of the shell, as it were, to have closer relations with industry. Some of the factors which precipitated this perceptible change in the outlook of British banks may be noted. One of these was that, with mounting rates of taxation on undistributed profits,

the capacity of even established business to plough back profits tended to become greatly diminished. The capacity of the private banker for investment in small enterprises also was affected by similar inroads of taxation into their resources.

There is thus no longer any doubt as to whether the traditional method of financing of industries in the U.K. is adequate and satisfactory. Moreover, whatever may have been the case with the existence of "Macmillan gaps" on any important scale before the war, it is now universally admitted that there may well be many important gaps in the special circumstances of the transition period. The essentially negative function of reducing capacity—for that is what finance for the scheme of rationalisation of industry in after depression years meant in essence—is not expected now to meet with post-war requirements. For, after this war, something different is needed, a more positive approach, namely, the provision of finance for the modernising and building up of industry and the making good of obsolescence. Large amounts are necessary for this purpose, for the modernising of British basic industries alone, it is estimated that over £1000 millions may be necessary, while the larger British industries—coal, cotton, and steel—would each require capital for their reorganisation equivalent to the total nominal resources of the Finance Corporation for Industry.

Bearing all these factors in mind, no doubt, discussions had been going on for some months past among the banking and financial circles in the U.K. as to how best the financial needs of British industries in the post-war period could be met. This fact was disclosed by the Chancellor of the Exchequer in the House of Commons on 23rd January last, when, in announcing the proposal to set up the new Financial Corporations, he referred to the Governor of the Bank of England as having informed him that, these discussions had reached an advanced

stage, and that it was as a result thereof, in fact, that the proposal in question was being mooted.

After this brief introduction, we may proceed to deal with the capital structure, the constitution, and the aims of the two Corporations.

## II

Both the Corporations are, like ordinary commercial undertakings, registered under the British Companies Act. The capital of the bigger of the two, namely, the Finance Corporation for Industry, Ltd., is to be £25 million, of which, it would appear, no more than 2 to 2½ per cent. is being called up. This amount is to be subscribed by a consortium of the insurance companies and the investment trust companies, as also the Bank of England, the respective share of the three agencies being roughly estimated at 40, 30 and 30 per cent. There is thus no public issue of the capital as such. Nor do the promoters intend to procure Stock Exchange facilities for the Corporation's shares. The Corporation will not accept any deposits, but is authorised to borrow up to four times its paid-up capital for the time being. Thus, when the capital is fully paid-up, the total resources of the Corporation will be £25 million plus £ 100 million, that is £ 125 million. The working capital of four times the paid-up capital is to be supplied to the Corporation by the Clearing Banks and the Scottish Banks.

The second Corporation, namely, the Industrial and Commercial Finance Corporation, Ltd., will be a private company and is to have a capital of £ 15 million and borrowing powers of twice that amount. Except for a token subscription of £ 500,000, by the Bank of England the share capital is being subscribed by the Clearing and Scottish Banks only. In other words, insurance companies and investment trusts will not participate in

it. The respective contribution of the participants will be approximately as follows:

		£
Bank of England	...	500,000
Bank of Scotland	...	205,000
Barclays Bank	...	2,638,000
British Linen Bank	...	165,000
Clydesdale Bank	...	190,000
Commercial Bank of Scotland	...	254,000
Coutts & Co.	...	119,000
District Bank	...	509,000
Glyn Mills	...	173,000
Lloyds Bank	...	2,338,000
Martins Bank	...	580,000
Midland Bank	...	2,761,000
National Bank	...	100,000
National Bank of Scotland	...	195,000
National Provincial	...	1,674,000
North of Scotland	...	125,000
Royal Bank of Scotland	...	333,000
Union Bank of Scotland	...	162,000
Westminster Bank	...	1,740,000
Williams Deacons Bank...	...	239,000
<b>Total</b>	...	<b>£15,000,000</b>

It may be noted here that the distribution of the share capital among the participants as above is roughly in proportion to their deposit liabilities.

The loan capital of the Industrial and Commercial Finance Corporation is also believed to be on the same

basis, that is in the same proportion as the subscription to the share capital.

Both the Corporations will be managed as units in themselves, entirely independent from the banks, including even the Bank of England. They will have their own boards of directors—though not necessarily full-time ones—elected by the shareholders in the normal way and consisting of persons of wide experience in business, as also permanent staffs of men experienced in finance. It is noteworthy that due provision is also made for representation to the labour side of industry. Then, again, there is no direct Government responsibility or interest involved in them, none of the directors being a Government nominee. The Chairman of the larger of the two companies, the Finance Corporation, Ltd., is Lord Hyndley, who is also a director of the Bank of England, besides being connected for a long time with the coal industry. India's ex-Finance Member, Sir Jeremy Raisman, is also one of the directors. The Board of Directors of the Finance Corporation will, besides having a scientist as one of the directors, be assisted by a special industrial advisory panel. There will be a Scottish Committee to assist this panel on all matters relating to Scotland. The Industrial and Commercial Finance Corporation, Ltd., has a board of eight directors, the first chairman thereof being nominated by the Bank of England. The other first directors will be nominated as follows: one by Barclays Bank, one by Lloyds Bank, one by Midland Bank, one by National Provincial, one by Westminster, one by the Scottish Banks, and one by District, Glyn Mills, Martins, National Bank, and Williams Deacons.

The object of the Finance Corporation, Ltd., will be, in the words of the Chancellor of the Exchequer, "to provide temporary or long-period finance for industrial

business of the country with a view to their quick rehabilitation and development in the national interest, thereby assisting in the maintenance and increase of employment. The primary purpose of the Corporation will be to provide finance and not itself reorganise industry." Finance is further to be provided to concerns which cannot obtain funds readily through the existing channels of the joint-stock banks or the long term capital market. It is thus evident that the Corporation does not intend to displace the existing channels of finance. On the other hand, categorical assurances have also been given to the effect that both this Corporation and its smaller counterpart will handle *only such sound economic schemes* as could not reasonably be financed through the ordinary capital market. This means that the two bodies are not intended mainly for rescue work, as was once feared ; in other words, although profit-making may not be the primary motive of these corporations, they will avoid bad debts, cover expenses, and pay a small return too on the capital invested.

The object of the Industrial and Commercial Finance Corporation, Ltd. is not to grant revolving or self-liquidating loans, but to supply medium and long-term capital for small and medium businesses in the country in amounts ranging from £5,000 to £200,000. This has been recognised to be a crying need, as, according to the Macmillan Committee, great difficulty was being experienced by the smaller and medium-sized businesses in raising capital even when the security offered was perfectly sound. Notwithstanding this, however, it is believed that much of the business open to this Corporation would normally appeal to the banks also and accordingly there might not be much scope for its activities. This, however, does not seem to be the view of the promoters of the scheme, as witness the following extract from an announcement made by the banks in regard to the proposal for creating the Industrial and Commercial Finance Corporation :

"The gaps which are frequently alleged to exist in the present arrangements for the provision of credit are the absence of financial machinery specifically designed to provide (a) business, large or small, with (i) temporary finance in anticipation of and issue of capital and, or (ii) medium term finance (say, up to periods of five years) in connection with long contracts at home or abroad; and (b) smaller and medium sized industrial or commercial businesses with long-term capital where the amounts involved (say, up to £200,000) would not justify, or possibly permit of, the making of a public issue."

"Given solvency and creditworthiness, the small man is adequately catered for by the joint-stock banks. The provision of intermediate credits for periods ranging up to the quota of 5 years" presents no problem provided commercial justification and reasonable safety can be demonstrated. The existing banking machinery is adequate for all requirements apart from the provision of long-term capital. As a matter of principle, a deposit bank should not advance money on long term, but its lending policy should have, as its main object, the temporary augmentation of a borrower's floating capital rather than the provision of funds to be invested in permanent assets. The strength of the deposit banks in this country and the public confidence in them have been such that they have been able, in many cases, to assist their customers by advancing funds in the manner and for the purposes somewhat outside these normal functions; they fully intend to continue this practice after the war, but in the situation which is then likely to exist, it would appear that the medium and long-term requirements of industry and commerce may be so great that it would be advisable to provide an additional channel for this type of borrowing. It is with this factor largely in mind that the banks have decided to form, capitalise, and lend substantial sums to the projected company."

## III

From what has been said above of the need for, and the objectives of, the new finance corporations, *prima facie*, it may appear there is little to be criticised and much to be welcomed about either of the new concerns, but the comments in the British financial Press, as well as the recent debate in the Parliament, clearly show that many people have been a little suspicious of them and somewhat sceptical about their usefulness. Whether the existing institutions cannot do the work of the new concerns and whether there is a need at all for them, whether their coming into existence will not affect the interests of existing institutions adversely, and whether the terms to be offered by the new corporations would be such as to make the risk and contribution of the participating institutions, worth their while were some of the aspects which engaged the attention of the critics. The announcement of the details regarding the two corporations and the replies of Sir John Anderson to the debate in the House of Commons on these corporations served considerably to allay the critics' suspicion and make them abandon their scepticism.

To the question whether the existing institutions were not enough, I have provided an answer at the outset itself. The fact that even the Macmillan Committee Report recommended, so long ago as in 1931, that some independent concern with an expert staff of its own was necessary to act as a financial adviser to industry and give it assistance in obtaining finance, indeed, makes such a question superfluous. Even the Bankers' Industrial Development Corporation was ruled out as not likely to answer the purpose so long as it remained as a part of the Bank of England. Moreover, even if it is conceded that banks are by no means so purist in their lending policies as has been suggested, it cannot be contended that they can cope up with the exceptional needs of the transition period. In the circumstances of the transition

period, there will be ample business for everybody and ample scope for additional resources. There are, for instance, the capital requirements of concerns closed down for long periods under the Concentration of Industry Order. Then, again, there may be a multiplicity of new enterprises established by men returning from the forces. Both these entail lending on a longer term basis than the banks can be expected to countenance, in other words, more than normal banking risks, and since they cannot incur such risks, some new device must be found, or an institution brought in for the purpose. The capitalisation of the finance corporations is, in fact, so conceived as to enable the banks to take such risks and, at the same time, to insure themselves against the consequences of such risks. It enables the resources of the large banks to find their way beyond the short-term into medium and longer term finance of industry without jeopardy to the interests of depositors.

As regards the fear that the interests of existing institutions might be adversely affected by the new corporations, there has been the distinct assurance of the Chancellor that the two concerns will not be the sole means of financing, these providing only additional facilities. The banks will continue to do a good deal and where the new concerns will come in will be only when the case of urgent or larger type of finance comes in. Where, for instance, the money is required quickly, or where an industrial company has to be nursed for a time, the corporations will offer help. The company concerned may then go to the capital market, raise the money through the normal channel, and repay the corporations.

On the question whether the terms to be offered by the new corporations would be such as to make the risk and contribution of the participants in these corporations worth the while, however, the question is one

of opinion. But this aspect must admittedly be considered from the point of view of the main object of the new corporations. Their primary concern, it should not be forgotten, is, after all, to make available facilities required in the public interest. They are not out to make safe profits on as large a scale as possible. If this consideration is borne in mind, such calculations as the possible return of no more than 4 per cent. on the equity capital will not arise. They would perhaps be more relevant had the institutions been floated under purely private auspices where the risks that exist tend to be reflected in the return.

Some of the other criticisms were : (i) that the capital resources of the two corporations would be negligible in comparison with the vast post-war requirements of industry ; (ii) and that the pre-war experience of the Bank of England's intervention in industrial finance has not been very encouraging to expect an institution sponsored by it to be of much help. The first of these is, indeed, accepted, but it is pointed out that, while the corporations' capital and borrowing powers as fixed at present need not be taken as their limit for all times, the fact remains that, besides these two concerns, there will also remain the other channels through which industry has all along been raising funds. The fear about the Bank of England's past experience in the sphere of industrial finance need not simply arise, for it has apparently been realised that, because it has been a part of the Bank of England, the Bankers' Industrial Development Corporation, has not been able to do much. Hence the bringing into being of the new corporations which are as much distinct from the Bank of England, as from His Majesty's Government, though Mr. Spearman described them in the House of Commons as " twins conceived in White Hall and born to the Old Lady of Treadneedle-Street."

At this stage, it may perhaps be desirable to indicate the exact relationship between the finance corpora-

tions and the Bank of England, as also the banks generally, on the one hand, and between the corporations and His Majesty's Government, on the other. The Bank of England's influence over the bigger corporation, it is made clear, will be limited to that which it will exercise as the largest individual shareholder, while over that of the smaller, it is limited to the right of appointing the first director-chairman and probably of nominating a director subsequently. In short, to quote the words of Sir John Anderson, "this is not at all to be regarded as an operation of the Bank of England." As for the role of other banks participating in the corporations also, such is limited, where specified, to the nomination of a director, and this may be either in their individual capacity or in conjunction with other banks. As even in regard to the nomination of directors, the choice of the banks would not be confined to those known primarily for their financial experience only, but include, in the main, those noted for their industrial and business experience also, the banks generally too could not be stated to exercise a dominating influence.

Neither is the Government expected to influence the corporations to any appreciable extent. Even in drawing up its plans, it is believed, neither the Government nor the Bank of England gave any directions to the corporations. These bodies will take part in the organisation of private enterprise in the U.K. and their existence will not affect the Government's relations towards industry in any way. Having taken no financial interest, the Government has not even a representation. It has given no assistance to, nor conferred any privileges on, the corporations. Like other companies, the corporations also have to pay stamp duties. They are thus on all fours with other financial concerns. Notwithstanding this, it is noteworthy, the corporations are required to keep in touch with the Government, so that it may be fully aware of the corporations' position. The Minister concerned is, in fact, held responsible for the activities

of the corporations, in so far as these bear on the general economic policies, although he cannot interfere in the detailed day-to-day working of the two bodies. However, where issues of the highest importance are involved, the will and influence of the Government of the day is bound to prevail.

#### IV

Since the announcement of the establishment of the two finance corporations in the U.K., at least one Empire country has taken measures to provide for long-term finance to industries. That country is Australia, where, as a result of proposals introduced in March last, an Industrial Finance Department is to be established—if it is not already done—of the Commonwealth Bank “to provide finance and assistance for the establishment and development of industrial undertakings, particularly small undertakings, and to provide advice on the operations of industrial undertakings with a view to promoting their efficiency.” This department is to have a capital of £4 million (one-half of this to represent a transfer from the Special (Gold Profit) Reserve in the Commonwealth Bank’s note issue department, the balance to be transferred from the other assets of the Bank). The department is empowered to make loans to individuals and to building societies for specified purposes at the lowest practicable rates of interest. One wonders why, after the Bank of England’s none too satisfactory experience with almost a similar department, the Australian Government thought of providing industrial finance through the agency of a department of the Commonwealth Bank instead of having quite a separate organisation for the purpose. Even in Canada, which preceded the U.K. in introducing measures to provide industrial finance, it may be noted here, the Industrial Development Bank brought into existence in August, 1944—happens to be a subsidiary of the Bank of Canada, although with a bigger authorised capital than its

Australian counterpart, namely, \$25 million (\$10 million of this has been subscribed by the Bank as required under the relevant legislation.) In the absence of fuller details about both the Australian and the Canadian measures, one is constrained to refrain from commenting thereon, or examining them at greater length, with a view to ascertaining if there are any features in them worthy of consideration for adoption by other countries.

In so far as our own country is concerned, before we can say whether such institutions as have been started in the U.K. and other countries are needed in India also, it might be profitable to examine briefly what facilities this country already has for providing industrial finance and what their deficiencies are, if any.

The idea of Government's active assistance to industries in India, whether financial or otherwise, is of recent origin. It was, in fact, the Indian Industrial Commission that urged the Government of India to take an active part in the country's industrial development. One of the notable recommendations of this Commission was that the Government of India should adopt a scheme of industrial banks after appointing a committee of experts and taking their considered opinion on the subject. As an *interim* measure, that is, until these industrial banks came to be established the Industrial Commission urged the Government of India to assist industries by granting guarantees of credit and dividend, by loans and advances, by agreements to purchase the output of the industry or industries concerned, by contribution to share capital, and facilities for hire-purchase of plant, etc. Nothing much came out of these recommendations, for, in 1921, under the changes made in the Indian Constitution in that year, the main responsibility for the development of industries by the State devolved on the Provinces, and the Ministers concerned in the Provinces found themselves unable to give effect to the Industrial Commission's recommendations by reason of the meagre resources of

their respective Provinces. Before this date, the Provinces did little to encourage industries, generally, and much less by way of financial assistance, in particular. The U.P., however, was an exception.

The years between the reforms and the appointment of the Central Banking Enquiry Commission in 1929 may well be regarded as the era of Provincial aid to industries. Practically all that the Provinces may be said to have done was either begun or practised during these years. The pioneer in the field was Madras with its State Aid to Industries Act in 1923, and, to this day, it is admitted, that this Act represents the ideal lines on which Provinces ought to aid industries within their jurisdiction. Then came the Punjab with its Industrial Loans Act, followed by the Bihar and Orissa State Aid to Industries Act. The U.P. was by about the only Province which tried to implement the Industrial Commission's recommendation regarding the setting up of an expert committee to establish an Industrial bank. A Committee appointed by the U.P. Government examined the question of establishing such a bank in 1922-23, although it decided against such a course being adopted. The Committee, however, wanted the Government to undertake the task of supplying small industrialist with capital upon easy terms in approved cases. For recommending advances of such capital, out of a sum earmarked every year, it favoured the appointment of a Board of Industrial Loan Commissioners. Such a board was, in fact, appointed in 1922, but its function, as noted above, was only advisory, for the responsibility of deciding the extent of the loan to be made lay with the Government.

That the work of financing industries by the Provinces was by no means satisfactory, nor adequate, is amply borne out by the review of the administration of the various State aid to industries Acts in the Provinces both by the Central Banking Enquiry Committee in 1929 and, five years later, by the Fifth Industries Conference

held in Simla. Although they—the State Aid to industry Acts—have afforded some needed official assistance to industries, their working has indubitably suffered from the inelasticity of official procedure and possibly lack of sound business knowledge on the part of officials. It was doubtless with a view to remedying the position that certain recommendations were made by both these. The Central Banking Enquiry Committee, while recommending continuance of Provincial legislation on the lines of the Madras Act to provide credit facilities to new and nascent industries or industries newly introduced into any area, and cottage industries, also urged the establishment of an industrial corporation for canalising Government assistance to industries by way of provision of capital. This is only in so far as State-aid was concerned. The Central Banking Enquiry Committee also made certain recommendations in regard to the provincial requirements of industries, generally, after pointing out how the Central Government had failed to implement the recommendations of the Industrial Commission and the perceptible growth in public consciousness as to the apathy of the centre towards development of Indian industries in marked contrast to the active State intervention in the development of industries in advanced countries like the U.S.A. and Japan, and facilities for special finance to industry in the U.K. It also referred to the several handicaps in the way of securing finance for block capital from banks or the public by major industries, such as the uncertain and unsatisfactory practices in vogue in respect of the cotton industry—the deposit system and the managing agency system, for example—the absence of any recognised method by which the general public can obtain advice and assistance in regard to sound investment, and the reluctance of institutional investors to invest their surplus funds even in debentures of first-class concerns. As a basic principle, the Central Banking Enquiry Commission recommended that, generally speaking, initial block capital for industrial enterprise should be put by private or public subscription and

not by commercial banks—a view which applies even to present-day conditions—while block capital for subsequent improvements and extensions, which cannot be met out of the industry's undistributed profits, might be supplied, on furnishing adequate security, and even then for a temporary period, that is until the industry concerned could raise further capital or issue debentures for the amount required. It must be pointed out here that the Central Banking Enquiry Commission, particularly noted that this was a new and specialised line of business requiring considerable experience and an established policy of sound banking and, accordingly, opined that it was best attempted by leading banks in a strong position.

Although the Central Banking Enquiry Commission regarded the provision of initial block capital as falling outside the scope of the State, it did not fail to recognise the inadequacy of available facilities through private sources. In view of this, it favoured the establishment of special institutions. Industries being the responsibility of the Provinces at the time, and the prevailing trend, despite the constitutional revision then in process, being in favour of the Provinces retaining such responsibility, the Commission recommended the setting up of Provincial industrial corporations with the Government of the Province concerned finding the capital initially or permanently. Even so, being aware that there were, or would be, certain industries of an all-India character falling within the scope of the Centre, the Central Banking Enquiry Commission, while not making a specific recommendation for the purpose, did not rule out the formation of an all-India industrial corporation also for the purpose of securing proper liaison between the Centre and the Provinces in matters touching on industrial finance.

The findings of the Fifth Industries Conference were that, except in some Indian States, larger loans had nearly been unsuccessful, but that, smaller ones had served their purpose in a majority of the cases. Still,

the Conference felt that industrial development in no Province had been appreciably stimulated by the grant of State-aid. According to it, the main cause of the failure was the undue risk taken by the Government concerned in financing the larger enterprises, in the absence of means of determining correctly the soundness or otherwise of these enterprises or arrangements to supervise the working or taking charge of the management. The Committee further referred to the failure of all but one of the Provinces to set up industrial corporations as recommended by the Central Banking Enquiry Commission (The only Province which set up an industrial corporation was the U.P. In July, 1938, it established such a corporation with the primary object of giving long-term loans to small industrialists. Under an agreement with the U. P. Government, this corporation was to receive, besides a contribution not exceeding Rs. 1½ lakhs in the aggregate, an amount equal to 4 per cent. of the paid-up capital, but not exceeding Rs. 60,000—because of this limit, the increase of the paid-up capital beyond Rs. 15 lakhs or even the issue of debentures, is made subject to Government's prior sanction—for a period of 15 years to supplement its profits and enable it to declare a dividend of 4 per cent. each year. The present subscribed capital of the corporation is Rs. 10 lakhs, while the paid-up capital is just half of that. The working of this institution so far has not been considered as quite satisfactory.)

It now remains for me to consider what, in the circumstances obtaining in India to-day, would be a suitable agency for the supply of industrial finance. Experience has shown that the existing State aid Acts and the Centre's occasional bounties or assistance have yielded no noteworthy results. Despite the Central Banking Enquiry Commission's suggestion that leading and well established banks in India might step in to provide temporary and well-secured advances for capital expenditure to established industries, our banks have

displayed little or no interest in this new line of business. For several reasons, enlightened opinion does not consider India's ordinary commercial banks even to-day to have reached a sufficiently advanced stage to take to mixed banking and to interest themselves substantially in the long-term financing of industries. In the first place, it feels that the resources of these banks are of a character which militates against long-term financing of the industries. Secondly, it believes that the ordinary Indian Bank management has not the requisite knowledge of the problems and prospects of industrial investments. Even after a stage has been reached when our banks may be regarded as having ample resources and adequate knowledge of industrial establishments for venturing into this field, it is the considered view of many that ordinary commercial banks would do well to confine themselves to a limited partnership with industry by supplying only a part of the capital requirements and having a share in the management. The need for a special type of institution to fill the gap is thus quite obvious. Such an institution, it is felt, should derive its resources from long-term deposits and debentures, besides share capital, participated in by the State, if need be, even as in the case of the U. P. Industrial Corporation.

Whether such an institution should be an all-India one, and, if so, whether it should be an apex organisation with branches in all the Provinces and States to ensure co-ordinated effort is the next question that would arise. In the light of the Government of India's recent statement on industrial policy, it is clear that we are going to have, in the future economic set-up of this country, some industries the scope of operations of which would be confined only to the Provinces in which they are located, and others with wider ramifications, perhaps even of all-India significance. In regard to the latter, again, there would be some industries, the provision of finance in respect of which would be the Centre's own responsibility.

and others in respect of which this responsibility would have to be shared between the Centre, the Provinces and the concerned business interests alike. This state of affairs evidently demands two separate agencies, one to finance institutions which are run solely by the Government, and another to finance institutions run by private enterprise either by itself or in co-operation with the Governments, Central or Provincial, or both Central and Provincial. Any scheme for the provision of industrial finance in the future would thus have to think of an agency to provide credit facilities to small-scale and cottage industries in the Provinces, an agency to provide similar facilities to large-scale industries with Provincial and extra provincial jurisdiction run by private enterprise or by private enterprise and State, and a third agency to provide finance to large-scale industries owned and managed entirely by the State.

For the first of the three purposes mentioned, it is felt that, besides the State Aid to Industries Act on the lines of the Madras Act, there should be Provincial Industrial Credit Corporations. In regard to the third, experience in other countries suggests an entirely separate agency to finance industries which are the concern of the State. As for the second, which is, indeed, the most important category into which many of the industries that may be started hereafter would fall, some form of an all-India Industrial Finance Corporation is a crying necessity, the more so by reason of the development plans now awaiting to be worked out. The constitution of such a corporation may be either of one of the following two types:

1. An institution, participated in by the Government, the Reserve Bank, and perhaps an element of institutional and other private capital.
2. An institution, participated in by only the leading banks with or without the other institutional and private

capital, but enjoying the confidence of the Government and entitled to its assistance in the event of an emergency.

In either case, it is desirable to have a central organisation, located preferably in an important industrial centre like Bombay, and a number of branch organisations spread over as many of the industrial zones of the country as possible.

Whatever may be the pattern of the organisation in question, or its institutional details, there is one point, to which the Governor of the Reserve Bank of India drew special attention in the course of a recent address to the Bombay branch of the Indian Council of World Affairs on industrial finance, and which must be mentioned before I conclude this note. It is that particular attention must be given to the establishment of the conditions necessary for the successful development of industries receiving assistance by way of grants and loans, for unless industry is placed on a profitable footing and is assured of an environment favourable to growth, no solution of its difficulties on the financial plane alone can ensure the desired results. In this view of the case, the problem of financial assistance is easier of solution than many other problems.

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CHAPTER 4

**THE UNITED STATES COMMERCIAL COMPANY**

BY

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The great majority of the strategic and critical raw materials, commodities and foodstuffs purchased by the United States Government abroad are handled by a single Government Corporation—the U. S. Commercial Company—acting in its capacity as the agency of the Foreign Economic Administration. The only important exceptions are rubber and petroleum products which are purchased by other agencies, a few individual foreign procurement projects which had been carried close to completion by domestic agencies before the FEA was given the complete responsibility for Government procurement abroad, and the procurement of foodstuffs in Canada and the Caribbean because they are so intimately connected with food operations in continental United States.

A description of the present operations of the U. S. Commercial Company, therefore, is a description of virtually all the activities of the FEA which involve the procurement and development of strategic commodities abroad.

**Early Activities**

The history of the U. S. Commercial Company, however, goes back to a time in which its functions were narrower in scope. The USCC was established in the spring of 1942 as a subsidiary of the Reconstruction

Finance Corporation. Its function in this early period, carried out under the direction of the Board of Economic Warfare, consisted primarily of the preclusive purchasing of commodities in neutral countries to keep them from reaching the enemy.

When the history of the war can finally be written and these activities can be appraised, it will be apparent that a number of the more critical shortages of the Axis in raw materials, required for the production of munitions and other vital war materials, have been successfully promoted by this buying. Because of the obviously secret nature of these activities, the general public knew very little about the USCC during the period in which preclusive purchasing constituted its most important job.

The early activities of the Company encompassed a number of other functions directly related to economic warfare. They included: the purchase in the United States of trade goods for resale in the islands of the South Pacific to stimulate food production and otherwise to aid U.S. armed forces; service as agent for the U.S. and British war shipping agencies in the disposal of incoming ballast cargo; and the development of fresh-fish and vegetable production for the use of the Armed Services in the Pacific.

The purchase and shipment of trade goods, like the production programme in the South Pacific, was undertaken at the request of the Armed Services. The Army and Navy needed the help of the large native population in those islands used as bases. To encourage the natives to carry out construction work, road building, and other essential work, it was necessary to supply stronger incentives than simply payment in U.S. currency. The selection of goods, which would appeal to the native populations, but which would use the minimum of shipping space, became the problem of the USCC.

### Effect of Reorganization

During the summer and fall of 1943, the entire machinery of the Government for carrying out its economic activities abroad was reorganized. This was accomplished by two Executive Orders—one dated July 15, 1943, and the other dated September 25, 1943. The first established the Office of Economic Warfare to replace the Board of Economic Warfare and transferred to its direct control most of the Government corporations which were then doing an exclusively foreign business, as well as the foreign activities of other corporations which were engaged in both foreign and domestic purchasing. The latter included the foreign activities of Metals Reserve Company and Defence Supplies Corporation, which were then handling the bulk of the Government's purchases of strategic raw materials both abroad and at home.

The September Order created the Foreign Economic Administration. That Order consolidated into FEA the Office of Economic Warfare, the Office of Lend-Lease Administration, the Office of Foreign Relief and Rehabilitation, that part of the Office of Foreign Economic Co-ordination of the State Department dealing with the foreign economic operations, together with the foreign activities of the one remaining Corporation still doing both foreign and domestic purchasing—the Commodity Credit Corporation of the Department of Agriculture.

The USCC, being a Government corporation which had dealt entirely in matters directly related to foreign economic activities, came completely under the control of the FEA as a result of executive orders, and consequently was the logical corporation for the FEA to use in carrying out some of its foreign activities. On January 1, 1944, the USCC was merged into the structure of the FEA. A new USCC Board of Directors was elected, consisting principally of executives of the FEA. In its day-to-day operations, the necessary corporate

activity of the USCC is now directed by an executive committee consisting of the Administrator of the FEA, a representative of the Reconstruction Finance Corporation, and five officers of the FEA.

### Emphasis Shifts

With the assumption by the USCC of the foreign activities formerly carried on through other Government corporations, the emphasis in its operations has shifted from preclusive buying to the procurement and importation of strategic raw materials, commodities, and foodstuffs for our own war production and war economy. Operating under general recommendations from the War Production Board and the War Food Administration, the USCC, as agent of the FEA, purchases the portion of the needed strategic raw materials, commodities, and foodstuffs which for any reason cannot be obtained and imported by private business.

In general, these are the commodities in which so great an expansion of foreign production was required that private importers could not take unaided the financial risks involved. They include tin, quinine and manilla fibre, which were formerly obtained from areas now occupied by the Japanese. They also include materials like mica, and quartz crystals which were always imported but which are needed in vastly increased amounts to fill American military needs for radar, and other purposes. They include other materials like copper, which the United States normally produces in large enough quantities to meet her domestic requirements but which cannot be produced in quantities sufficient to meet expanded wartime needs.

Altogether, the USCC is procuring from foreign countries about 100 different kinds of strategic raw materials and commodities and many varieties of essential foods, from every country in the Western Hemisphere,

most of Africa, India, China, Australia, and the islands of the South Pacific,

### Basic Aims

The policies which the USCC has followed in its foreign procurement activities have been based on two simple aims. The first has been to buy for public account only those materials determined by the War Production Board or the War Food Administration to be essential to the war effort which cannot be procured by private importers without direct Government aid. The second objective has been to use in its public procurement existing commercial facilities wherever they are available.

The demands of the war effort for many commodities, as well as the loss of normal sources of certain strategic materials, have made it necessary to develop new or greatly increased production in areas still open to us. It has been necessary to revive a practically extinct quinine industry in Latin America; increase the production of tin in Bolivia and the Belgian Congo; initiate new plantations in Latin America for the production of fibres formerly obtained from the Far East; and to bring about an increase of several hundred per cent in the production of many forest products, including balsa wood for life rafts and Mosquito bombers.

### Varied Methods

These increases have been obtained in many ways—by reducing the risk to producers through term contracts; by advances of capital; by sending geologists, forestry experts, and agricultural experts into the field; by expediting the shipment of equipment to producers; by negotiations with foreign governments to prevent imposition of restrictive taxes or other impediments to commodity procurement; and by many other kinds of technical assistance.

Much of this stimulation has resulted in increases in the direct importation of strategic materials and commodities into the United States by private importers. United States imports of all commodities for consumption have risen from 2,276,000,000 dollars in 1939 to 3,67,000,000 dollars in 1943. Of the 1943 figures, an estimated £,350,000,000 consisted of imports which were exclusively for private account—a figure greater than total imports in 1939. Furthermore, almost 40 per cent of our total 1939 imports came from areas now cut off by the Axis. Imports from these areas remaining open to us in 1943 were only 1,380,000,000 dollars in 1939, compared to the 2,350,000,000 of exclusively private-account imports in 1943—roughly a 60 per cent. increase.

In some special cases, the USCC has been able to provide a direct service to U.S. business and industry, even though the commodity involved is not one which the War Production Board has placed under "Government purchase" because of war requirements. In areas close to the fighting fronts, and in certain other parts of the world where private importers cannot yet operate, it has been possible for the USCC to act as the intermediate purchaser in behalf of all U.S. importers as a group. While this device is only a stopgap pending the time when American importers can act in their own behalf, it is proving useful in preserving American private channels of trade.

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## CHAPTER 5

# THE INTER-AMERICAN DEVELOPMENT COMMISSION

(**New Instrument of Hemisphere Advancement**)

BY

J. RAFAEL OREAMUNO

*Vice-Chairman, Inter-American Development Commission*

The Nations of America are turning their attention to the difficult economic problems ahead. Businessmen, manufacturers, foreign traders and many others are seeking to determine the future trends of Western Hemisphere trade and industry. The future of inter-American economic relations is an integral part of plans now being made to increase post-war business. And one of the most pertinent questions being asked is: Will inter-American economic co-operation, which has been so fruitful in wartime, be extended to peacetime?

Answers to this and many other questions are being found in part in the co-operation and activities of the Inter-American Development Commission and its network of affiliated national commissions in all of the twenty one American republics.

### Novel Instrumentality

The Inter-American Development Commission, established in Washington, and its twenty one national Commissions form a novel international organization through which business and government have been brought into collaboration on economic and industrial problems. The

organization was created by the co-ordinated efforts of all of the American republics. It is an instrumentality for their joint action in promoting and assisting industrialization through the utilization of natural resources, thereby contributing to the raising of living standards.

The parent Commission and the twenty one Commissions of Inter-American Development recognize the importance to the national economies of the Americas of a free flow of trade between them. To promote this objective they seek the adoption of more liberal trade policies through the lowering of tariff barriers and the elimination of other practices which obstruct international trade and stifle competition.

### **Keynote of the System**

Development of hemisphere resources and industry is the keynote of the system of Commissions of Inter-American Development. The Commissions recommended that this development be carried out by private enterprise where possible and that governmental regulation of private enterprise not be exercised beyond the degree necessary to protect the public interest.

While the Inter-American Development Commission is not a financial, one of its major aims is to encourage joint investment of United States and Latin American capital in industrial expansion and new enterprises.

Since its organization in June 1940, the parent Inter-American Development Commission in Washington, in co-operation with its affiliated national Commissions, has served as a clearing house for business information. When requested, it has acted in an advisory capacity to private business and governmental agencies.

### **Specific Activities**

Some of the activities of the Commissions include bringing together of interested parties and assisting

toward the establishment of a cashew-nut-oil factory in Brazil, a pencil factory in Argentina, construction of additional milk pasteurization plants in Colombia, and preparation of plans for a chemical salt byproducts industry in Colombia and for an aluminium plant in Brazil.

Other projects similarly assisted include : Cost estimates for a plywood plant in Brazil; experiments designed to lead to the construction of a babassu-nut-oil plant in Brazil ; negotiations by Chilean bread producers with United States manufacturers of equipment and materials for enriching the vitamin content of their products; studies of silk and industrial diamond production in Brazil, and others.

The Technical Office of the Inter-American Development Commission co-operates in many projects, prepares technical reports for the national Commissions or their governments, and assists in making agreements for the sending of technical missions to the other republics.

### Consultation and Assistance

Through collaboration of the Joint Committee on Inter-American Engineering Co-operation, the Inter-American Development Commission consults with outstanding authorities in the various fields of civil, mechanical, chemical, mining, and electrical engineering. The Committee was organized for that purpose by five of the leading engineering societies of the United States.

Engineering assistance such as the selection of mining engineers for work in Bolivia, Brazil, and Peru, and of industrial engineers for Mexico and other American republics, to co-operate in planning, developments, has been provided by the Inter-American Development Commission on request. For example, an industrial engineer has been sent to work in collaboration with Colombian engineers in the making of a preliminary industrial survey of Colombia. Agreements for the survey were made through the Colombian Commission

of Inter-American Development by the Instituto de Fomento Industrial of Colombia.

To assist Paraguay in making a technical survey of its leather, vegetable-oils, lumber industries, the Inter-American Development Commission has furnished that country with a technical mission. Specialists in these various industries were requested through the Paraguayan Commission of Inter-American Development by the Ministry of Industry and Commerce of Paraguay.

At the request of its national Commission in Ecuador and of the Ecuadoran Minister of Finance for assistance in an agricultural improvement and expansion programme, the Inter-American Development Commission has sent an agricultural technical mission to Ecuador.

In co-operation with the Brazilian Commission of Inter-American Development, the parent Commission has arranged for a technical mission of six prominent professors and engineers to come to the United States to study the organization and methods in leading technical institutions and observe actual working conditions in modern industrial plants.

In the furtherance of industrial accident prevention and other safety programmes throughout the other Americas, the Commissions of Inter-American Development are actively co-operating with the Inter-American Safety Council. The parent Commission also is collaborating with the American Standards Association in promoting the adoption of uniform technical standard throughout the Americas as an aid to industrial development and trade.

### **Handicrafts, Fisheries**

As part of a long-range programme for the systematic development of handicraft industries in the other Americas, the Inter-American Development Commission has sent a specialist in hand-made textiles to Mexico and

an expert in handicrafts to Peru. The objective is the creation of high-standard merchandise, by proper styling of native handicraft articles, and the organization of their production to supply domestic markets and for export to the United States. Similar surveys are contemplated in Bolivia, Chile and Guatemala.

A fisheries survey in the Caribbean area was arranged and a technical mission was sent to make studies of new sources of marine foods and the development of local fishery industries. During the survey, the mission was assisted by the national Commissions of the eleven countries visited. The result has been a stimulation by nationals in a number of these countries of their own fishery industries.

### Efforts Immensely Varied

The Inter-American Development Commission is interested in assisting young men from the other Americas in securing practical training with private United States industrial and business concerns. In furtherance of this programme it is co-operating with the International Training Administration, a non-profit, world-wide organization which provides services in connection with the selection, transportation and programmes of trainees.

One of the first problems dealt with by the Inter-American Development Commission soon after its organization was the production in Brazil of high-quality tapioca flour to replace that formerly obtained from the Far East. At the request of Brazilian authorities, arrangements were made for technical studies and the preparation of estimates and plans for the construction of plants for the production of this flour.

Plans were worked out for the development of the production in various American republics of other articles of export to the United States, to replace goods formerly obtained by the United States from Europe and other

countries. Commercial organizations in the United States sent special representatives to explore these possibilities. This resulted in an increased demand in the United States for articles produced in other American republics.

To assist merchants, importers, and exporters throughout Americas, the Inter-American Development Commission established in New York a Merchandising Advisory Service. The Advisory Service provided data for persons, firms, products, and markets in this hemisphere. However, the shortage of shipping and wartime restrictions in trade resulted in a discontinuance of the service.

### Post-Pearl-Harbour Changes

The permanent long-term development programme of the Commissions of Inter-American Development was radically altered with the entrance of the United States and other American countries into the war. The parent Commission in Washington took steps to acquaint other American republics with the experience of United States in meeting wartime problems, by distribution through the national Commissions of informative publications.

The chief problems created by the war in some of the American republics were the shortage of food-stuffs, unemployment due to curtailment of certain industries, reduction in customs revenues, price inflation, and an accentuation of inadequate transportation. To help solve some of these problems, the Commissions of Inter-American Development provided expert advice and technical data and assisted in the creation of a number of projects.

One of these projects was a survey of Brazil's tremendous vegetable resources by a group of technical specialists provided by the Inter-American Development Commission upon request of the Brazilian Ministry of Agriculture. The information developed by the study, which was printed and distributed by the Commission, assisted in

stimulation of Brazil's production and of increased imports by the United States of many essential vegetable oils formerly received from the Far East and the Indies.

The parent Commission in Washington assisted toward the conclusion of an agreement between the Dominion Republic and Haiti regarding the distribution of Haitian fibre, a material of importance of war industries in the United States, as well as to the national industry of the Dominion Republic.

The Cuban Commission of Inter-American Development submitted a project for expanding the capacity of a chemical plant producing chlorine, muriatic acids, and caustic soda. The Chilean Commission prepared projects for expansion of facilities for producing copper plate, erection of a plant to produce copper wire, and for expansion of industries manufacturing woollens and leather for the purpose of providing military equipment to American republics.

### Resources Mobilised

The over-all productive capacity in Latin America has increased as never before. It has been supplying the United States with many vital materials such as strategic metals, rubber, petroleum, and food-stuffs. It has been the most important, and in most cases the only source of supply for a large part of the critical materials necessary to the United States war effort.

Expansion of wartime production throughout the hemisphere is reflected in the export and import figures in the United States and other Americas. These figures show notable increase despite shortage of shipping and the conversion of the United States industry to war. In 1943, imports of the United States from the other American republics were more than 1,310,000,000 dollars compared with 646,000,000 dollars in 1939. In 1943, United States exports to the other Americas were 819,000,000 dollars compared with 43,000,000 in 1939.

This mobilization of hemisphere resources was aided by measures adopted at a number of Inter-American meetings called for the purpose of intensifying hemisphere co-operation. The Inter-American Development Commission was formed to assist in carrying out in part some of these measures.

### Results of Conference

For the purpose of charting a course of future economic co-operation during the transition into the post-war period, the Commissions of Inter-American Development held their first Conference in May, 1944. Delegates from the 21 American republics, representing finance, industry, agriculture, commerce, and government, expressed their concerted thinking and joint views in the 45 resolutions which were unanimously adopted.

These resolutions anticipate the many problems of reconversion, of readjustment, and of national and international economics. They cover industrial development, investment, trade and transportation, utilization of natural resources, and many other phases of economic activity throughout the hemisphere. In effect, they form a basis for a constructive approach to a better economic future in the Western Hemisphere.

### Background

The Inter-American Development Commission was created in furtherance of the economic policy adopted by the American Foreign Ministers when they met in Panama in September, 1939, upon the outbreak of the war in Europe, to consider ways and means of meeting the emergency situation. At this consultative meeting of the American Foreign Ministers was established the Inter-American Financial and Economic Advisory Committee composed of the representatives of the Governments of the 21 American republics. This

Advisory Committee created the Inter-American Development Commission as a permanent international body charged with the promoting and aiding expansion of Latin American industries and production.

The Inter-American Development Commission began operations and its role as a permanent organization in the development of hemisphere resources as a means of raising hemisphere living standards was confirmed and endorsed by the subsequent meetings of the American Foreign Ministers at Havana and Rio de Janeiro.

Functions of the Inter-American Development Commission were indicated by the meetings of American Foreign Ministers and by the Advisory Committee. They include the provision for technical studies and compilation of basic information relating to the economies of Latin American nations and the establishment of contact between individuals and groups interested in development activities. The exploration and utilization of national resources, cultivation and marketing of agricultural and forest products and establishment of industrial plants are referred to as the Commission's field of interest.

One of the first acts of the Inter-American Development Commission was to organize affiliated national Commissions in each of the 21 American republics in order to provide close contact with business and financial interests throughout the hemisphere. The national Commissions keep in close touch with each other and with the parent Commission in Washington. They consult on problems of mutual interest, and exchange technical data, reports, and other pertinent information. Many of the national Commissions have prepared helpful reports on the natural resources and the economic problems of their countries. All national Commissions maintain close working contacts with governmental agencies and private groups.

### Salutary Aims

The activities and the objectives of Inter-American Development Commission demonstrate what can be accomplished through international co-operation on the good-neighbour principle of mutual aid for mutual benefit. However, it is recognised that many serious difficulties will be confronted in the important work of the future. But when the pattern being established by these co-operative activities is considered with other trends and lessons learned through experience, the future course of trade and industry in this hemisphere is more clearly defined.

Based upon the well-laid foundation of many years of the expanding inter-American programme, the trend has been toward closer relations and greater trade among the Americas. This trend reached new heights during the war when the Americas facing a common enemy dedicated their energies and resources to a history-making co-operative endeavour.

Through co-operation during the war, there has been the greatest mobilization of resources ever made in this hemisphere. And throughout the Americas there has been a growing realization that, with their unlimited resources, there can be developed and built a better standard of living. The Americas recognize that they can mobilize for peace as for war. The degree of achievement will depend upon the vision, the will, and the determination of the peoples of the entire Western Hemisphere.

The idea that economic interests of the United States conflict with the industrial development of the other American republics has long been discarded by leading businessmen. Experience has shown that it is a fallacy to contend that the foreign trade of the United States is dependent upon the industrial retardation of other countries. On the contrary, it has been demonstrated that the best customers of the United States are not countries

producing raw materials only, but countries which also are highly industrialized.

### Opportunities Unlimited

As the Latin American countries develop their natural resources and industries along the lines of greatest profit for themselves, the standards of living of their people will be raised proportionately. And with this higher standard of living will come an increase in the purchasing power which will provide the Americas with expanding markets for the benefit of all.

The possibilities through inter-American co-operation were aptly summarized by Nelson A. Rockefeller, Chairman of the Inter-American Development Commission, when he declared :

"The opportunities for the future are limitless. The development of hemisphere resources and industry, the improvement of transportation, will provide fuller employment, a rising standard of living, increased buying power, expanding markets, greater trade, more travel, new opportunities for increasing millions of people. Surely there are problems ahead—grave problems—but most important, there are *great opportunities*."

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## CHAPTER 6

### DEVELOPMENT CORPORATION OF CHILE

The activities of the Corporacion de Fomento de la Production of Chile cover such a wide field that the progress of its various projects is of more than ordinary interest. The Corporacion or Development Corporation of Chile was organized by Law No. 6334 of April 28, 1939. Its authorized capital was placed at 1,000,000,000 paper pesos supplemented by an additional 500,000,000 pesos earmarked for low-cost housing. It is a semi-fiscal organization to which the Export-Import Bank of Washington has extended an appreciable line of credits. Its principal purpose is the attainment of a more diversified economic structure reducing the dependence of Chile upon the mining industries. From an organizational standpoint, the Corporation is divided into the following Departments : Mining, Agriculture, Industries, Energy and Fuels. The following account of the Corporation's activities during 1943 is based on the President's Annual Message to the Chilean Congress on May 21, 1944.

#### Mining

The mining programme is devoted principally to the stimulation of the production of copper, zinc, gold, lead, manganese, sulphur, industrial salts and fertilizers. The copper industry was assisted in the development of various mines, installation of new plants, and improvements to the existing facilities of various concentration plants. Metallurgical processes for developing oxidized

copper minerals have been studied, and the results obtained in the experimental plant trying out a process known as "iodization" have justified the construction of a plant whose cost will be around 3,000,000 pesos and which will have a capacity for treating 50 tons daily. Through loans and contribution of capital, manganese production in 1943 was substantially increased.

In anticipation of post-war needs for manganese the Corporation is carrying out research with ferromanganese at a cost of more than 1,000,000 pesos. Assistance given the Cobalera S.A. which is working low-grade deposits at Freirina enabled that company to increase its output. A concentration plant for improving the grade of ore was erected, and within a short time it is expected to produce oxide of cobalt. To place the zinc industry on a sound basis the Corporation has investigated deposits of zinc ores in Ocoa, Salamanca and Batuco.

Metallurgical experiments have also been carried out for the purpose of assuring a volume of zinc ore which would afford the proposed electrolytic refinery an adequate supply of raw materials. To assure Chile a national production of metallic lead, loans have been made to smelters located in Vallenar and Ovalle, and, by means of loans and investment of capital, gold production (especially of placer mines) has been increased.

Up till 1942, inclusive, the Development Corporation's investments in the development of sulphur deposits totalled 5,570,000 pesos. In the first half of 1943, the price of sulphur in the South American markets experienced an extraordinary rise as a result of war conditions affecting the supply of normal sulphur requirements of the South American continent. The Chilean industry was able to dispose of its entire output, but later the return of North American sulphur to the market at prices below that asked for the Chilean product

affected production, and the Corporation endeavoured to organize an association of sulphur producers.

New sources of raw materials for fertilizers have been studied, with accent on the promotion of production of calcareous, phosphated, potassic, and nitrogenous fertilizers. The Chilean Fertilizer Society was formed, composed of the Development Corporation and the Institute of Agricultural Economy, whose principal objective is the production of red guano. The Pozo Almonte Nitrate Society was also formed, the Corporation subscribing 5,000,000 pesos as the first step in its organization. Around 1,300,000 pesos have been invested in firms producing talc, kaolin, sulphate of aluminium, high-grade calcium carbonate, graphite, sulphate of barium, and borax. Finally, up to 5,900,000 pesos have been granted to the Mining Credit Administration in compliance with existing legislation which authorized that organization to make use of an internal loan up to 80,000,000 pesos, contracted for in bonds with the Development Corporation.

The Institute of Mining and Industrial Promotion of Tarapaca and Antofagasta received in the course of the year more than 1,900,000 pesos for development of promising mining zones.

### Agriculture

The Development Corporation's agriculture programme emphasizes the need for mechanization of agricultural labour, use of fertilizers, development of new crops, promotion of fruit culture, irrigation and drainage of lands, increased agricultural and cattle production, forestation, and industrialization of agricultural production—all aided by loans, credits, and contributions by the Corporation.

As regards mechanization of agriculture labour the Corporation has concentrated its activities on the importation and sale on credit of machinery, development of

mechanized agricultural equipment, local manufacture, and the technical preparation of agricultural workers through instruction in tractor handling. Around 15,000,000 pesos was spent for the importation of machinery, resulting in an increase of mechanized units from 1,557 in 1938 to 3,377 in 1943. Economic and financial assistance has been given to local producers of farm equipment. The Department of Economic Mobilization of the Chilean Army using mechanized equipment and funds furnished by the Development Corporation, has conducted tractor-driving courses.

To solve the problem of lack of fuel for the transportation of agricultural products, materials were imported permitting the mounting of 200 "Coloso" trailers for hauling freight. During 1943 the Division of Mechanized Equipment assisted 547 agriculturists in preparing the soil, cross-ploughing and harrowing.

Fruit-growing has received special attention, and up to date 12,510,536 pesos have been invested in this field.

During 1943 an investment of 2,564,250 pesos permitted the planting of 232,510 trees, including lemon, chirimoyo, olive, almond, and other kinds, and the addition of more than 850 hectares of land for fruit-cultivation.

Complementing agricultural production the Development Corporation has invested 4,041,000 pesos in the installation of dehydration plants, storage warehouses and machines for selecting and disinfecting. Investments of 5,922,000 pesos resulted in an increase of more than 30,000 hectares of irrigated land in 1943.

Of the more than 2,000,000 pesos granted in forestry loans, 512,000 pesos were invested in 1943 in the replanting of forests and the planting of species of greater natural adaptation and larger economic profit.

As a result the stands of pine and eucalyptus were increased by some 10,000,000 trees.

Plans for the cattle industry have been directed toward two main objectives—first, to supply funds so that herds could be formed which would be capable of supplying the population's meat requirements, and, second, to provide the country with breeding stock particularly suitable for cattle-raising in Chile under good conditions. The policy has also been to indicate which breeds are best suited to various areas of the country, taking into consideration climatic conditions and other factors.

In furtherance of this programme the Development Corporation spent 500,000 pesos for imports of Durham Shorthorn, Aberdeen Angus, Hereford, Normanda, Clavel Aleman, and other breeds of beef cattle, and also spent 2,030,215 pesos for 543 Holland-Argentine calves. Credits up to 3,200,000 pesos were allocated for the acquisition of pure Holand blood and Holstein Friesian breeds. The production of horses, sheep, and pigs was also increased, and 1,633 horses were imported from Argentina as well as Merino Australian and Dorset Horn sheep and hogs of fine breeding stock.

Nearly 7,000,000 pesos were loaned for the erection of stables with a capacity of 8,000 cows. Loans for silo construction totalled, 1,200,000 pesos. Lastly, 400,000 pesos were distributed as premiums in agricultural and cattle expositions.

### Industries

The Development Corporation's programme cover practically every type of industry. It invested 11,390,692 pesos in the Electro Siderurgical & Industrial Co. of Valdivia to be charged against the 48,000,000 pesos which the Corporation expects to invest in that steel company. The Corporation's study of the steel industry

resulted in the statement that a new enterprise was absolutely necessary in order to overcome Chile's steel deficit. The Council of the Corporation decided to form a stock company with an initial capital of 50,000,000 pesos which may be increased successively up to 200,000,000 pesos as the progressive development of the project shall require. Of the initial capital the Corporation will subscribe 25,000,000 pesos and private investors the rest.

The plants will be devoted principally to the manufacture of steel plates. The Corporations acquired in the United States a copper rolling mill and wire-drawing plants. The new plant, together with the existing rolling mill of the Mademso company, has been formed into a new society with a proposed capital of 42,000,000 pesos in which the Corporation and Mademso will participate. The consolidation of three metallurgical industries in Santiago resulted in the formation of the United Mechanical Metallurgical Industries (INMMAR) S.A. Loans and contribution of capital were made to the ship-building industry, resulting in an increase in the construction of wooden ships as well as improvement of the ship-repairing facilities of Chile.

Recognizing the need for the elaboration of chemical and biological products which are becoming scarce in the country the Development Corporation became a shareholder in laboratories which were in a position to produce substitutes for imported products. Approximately 15,200,000 pesos were invested in the Laboratorio Chile, making possible the enlargement of all of its installations and placing that industry in position to manufacture pharmaceutical-chemical products. In 1943 the Corporation paid in the last sum of its contribution to Laboratorio Chile amounting to 2,475,000 pesos. Of the increased capital the Development Corporation subscribed 3,075,000 pesos. The same enterprise had also, with the Corporation's aid, undertaken control of

the wood distillery of the Industrial Chemical Society Mirimar of San Antonio which was built to handle products obtained from eucalyptus wood.

The Sanitas Institute and the Industrial Colouring Society have been combined, to form a new enterprize with a capital of 2,000,000 pesos for the purpose of supplying Chile's aniline needs.

Finally, to increase explosive production a loan of 500,000 pesos was made to the Technical Society, Ltd., for investment in the acquisition of laboratory equipment, machinery, presses and motors.

The administration of agricultural Colonization together with the Development Corporation has formed the Lumber Stock Company of the South with a capital of 12,000,000 pesos. In 1943, it was authorized to subscribe 1,600,000 pesos in shares to increase the capital of that organization. During early 1944 this factory, which is located in the Lake Puyehue region, began operations, and the country can now avail itself of a higher quality of plywood.

Carrying out its policy of providing greater electrical facilities the Corporation extended loans for increasing domestic production of all kinds of electrical articles. In the field of textile manufacturing, emphasis has been on the increasing of production of higher quality cloths hitherto undeveloped, such as fabrics from combing wool, natural silk, and the like. A new loan of 3,000,000 pesos was granted to Minerva Loom to stimulate carpet production and to develop tweed type cloths. The sum of 2,000,000 pesos was granted to Sucesion Miguel Zaror & Sons for installing a twisting machine which was purchased by the Development Corporation in Switzerland.

The impetus given the fishing industry is largely due to the Corporation's financial assistance. During the middle of 1943 it formed the Arauco Fishing Co.

following 8 years of experimentation. For scientific sea exploration it contributed to the building of the Station of Marine Biology in Monte Mar Bay—a project prepared by the University of Concepcion. The Corporation's final investment in this enterprise brings the total contributed for that purpose to 825,000 pesos.

To overcome the shortage of cement, the Development Corporation acquired necessary machinery in the United States for building two new factories and increasing the annual production capacity of the El Melon Cement Company. It also subscribed 10,000,000 pesos in shares of a Chilean stock company formed for the purpose of exploiting the lime deposits of Juan Soldada near La Serena. By the same agreement another stock company with a capitalization of 40,000,000 pesos was formed to exploit the Santa Rosa lime deposits near Iquique. Of this capital the Corporation subscribed 8,000,000 pesos.

A new loan of 150,000 pesos was granted the Ceramic Society Castro Oleivera for stimulation of the production of chinaware and ceramic articles. The manufacture of pneumatic tyres and tubes was made possible by the formation of the National Pneumatic Industrial Society S.A. with a capital of 10,000,000 pesos partly supplied by the Corporation. The productive capacity of this new factory is estimated at 125,000 units per year. All necessary machinery was acquired in the United States and has been installed near Maipu.

The Chilear Films Company completed the construction of its buildings and the installation of the greater part of the film equipment as well as the laboratories. This society, which was organized in 1941 by a contribution from the Development Corporation, will begin its activities in 1944.

### Energy and Fuels

The electrification programme involving the investment of about 2,400,000,000 paper pesos over a period of

18 years was continued during 1943. The Pilmaiquen and Sauzal stations have made further progress, and work was begun on the Abanico Central Station which is expected to furnish electrical energy to all the zone centred around Concepcion.

Work has begun on the transmission line from Ovalle to Puitaqui which is expected to be in service during 1944. Toward the end of 1943, the Buin-Rancagua line was opened for service. The extension of the Tocopilla, Copiapo, and Ovalle electric services continued, with the number of new clients surpassing the most optimistic expectations. As a part of the electrical programme the Development Corporation formed the National Electric Enterprise S.A. with a capital of 500,000,000 pesos of which it will subscribe 40,000,000 pesos. Finally, the Corporation released an extensive report covering its plans for electrification of the nation.

Through loans, contributions, and direct exploitation the Corporation has greatly benefited the Chilean coal industry. Mines exploited were the Victoria, the Consolidated of Lebu, the Colico Sur, and the Pilpico. Production of the Consolidated reached 100 tons a day, but fuller development of this mine will depend upon the further exploration of its deposits. The Development Corporation contributed 6,000,000 pesos toward an increase in the capitalization of the Consolidated company. The nation's annual production of coal has been increased by nearly 100,000 tons, and this figure has been perhaps surpassed during 1944. Total investments by the Corporation under this category amount to 53,000,000 pesos.

- Petroleum investigations in Magallanes area have been under the direction of the Corporation, and results indicate the existence of oil. Since equipment in Chile was inadequate to carry out soundings to depths necessary

to determine the commercial possibilities of the area, the Corporation acquired equipment and materials in the United States which will permit drillings down to 3,000 metres.

### Commerce and Transportation

The functions of the Development Corporation's Department of Commerce and Transportation embrace foreign trade, distribution, slaughter and storage houses, markets, improvements in all forms of transportation, and tourist facilities. To assist the export trade the Corporation opened credits amounting to z,261,000 pesos in a current account for Chilean exporting firms. In furtherance of this project a number of commercial societies have been formed. The Corporation subscribed 3,640,000 pesos of the initial capital of 10,000,000 pesos of the General Commercial Society. The capital of this firm was increased to 50,000,000 pesos, of which the Corporation subscribed 6,300,000 pesos.

During 1943 the construction of fish-refrigeration part of the Frigorifico San Borja plant was completed and placed into operation, thus assuring the city of Santiago of an abundant supply of fish. This plant, which belongs to the Development Corporation, represents an investment of around 25,000,000 pesos.

War conditions forced the Corporation to limit its merchant-marine activities to the improvement and conditioning of available tonnage. The Chilean Maritime Society was formed with a capital of 45,000,000 pesos of which 23,000,000 pesos were subscribed by the Chilean Maritime Society, 1,000,000 pesos by Rafael Terres & Co. and 12,000,000 pesos by the Shipping Society Ltd and the Corporation.

A loan of 5,000,000 pesos was granted to the Santiago Fiscal Railway Enterprise for financing the repair of 100 streetcar motors.

Subsidies and contributions for highway improvements continued, among which 1,000,000 pesos were for the Africa-to-Chilecaya highway, 179,000 pesos for the road from Llahuiente to the frontier, and 21,000 pesos for paving the Frutilla highway.

The Hotel Society of the North, with an anticipated capitalization of 15,000,000 pesos, will have charge of hotel construction from Iquique to Ovalle. The Development Corporation will subscribe 5,000,000 pesos in that enterprise. The total investments made by the Corporation for the promotion of tourist activities (without including the hotel company) now total 18,000,000 pesos.

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## CHAPTER 7

# THE NEED FOR AN INDIAN COMMERCIAL CORPORATION

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While the governments of the different countries of the world have established their own Corporations to control and stimulate foreign trade and production according to desired aims, the Government of India have been merely inactive onlookers of this new development : they have not done anything whatsoever to take lessons from contemporary developments and set up an Indian organization of the same nature even at this belated hour. The suggestion for the formation of an Indian Commercial Corporation was made some time back and was vigorously supported by the business community. But their cry fell on deaf ears and no attention was paid to their grievances and demands except in a very perfunctory manner. The commercial community of this country did not, however, persist in their demand for the formation of an ICC and curiously enough in September 1944 when they met the Hon'ble the Commerce Member to consider over the vexed problem of the activities of the UKCC in this country, the approaching end of the war had created such a fundamental change in their outlook that they committed the blunder of giving up the demand for the creation of an ICC and only demanded that the much hated UKCC should go away from this country after the war. For the Government of India it would have been perhaps easier to set up an ICC if they

wanted, than to banish the UKCC in the absence of an Indian counterpart. In this manner the commercial community gave up their right demand just at the time when they could have carried their point ; and began to press for a measure which was impossible of execution. It was unfortunate that they did not project their vision beyond the end of the war, for then they could have seen an important post-war *role* for the Indian Commercial Corporation ; and far from giving up their demand for the creation of this body, they would have redoubled it and might have pressed it home. It is intended in the course of this Chapter to thrash out the entire problem of the creation of an Indian Commercial Corporation in its historical bearing and in relation to the present situation.

### I. Activities of the UKCC and the Genesis of the ICC Proposal

Of the various methods and devices recently adopted by Britain to tighten her grip on the body economic of India and to make her yield maximum co-operation and assistance to the British reconstruction efforts, the United Kingdom Commercial Corporation has perhaps been of greatest significance. Its activities have from the very start been so injurious to our commerce and industry that it has well been regarded as the spearhead *par excellence* of the recent British economic penetration into this country. During its brief sojourn, it has invoked volcanoes of criticisms and allegations which indicate the extent of injury it has already inflicted, intentionally or unintentionally, on our economic life.

The UKCC, it would be recalled, was registered in April, 1940, after some christening difficulties created by the strong Scottish opposition to the name previously suggested for it, *viz.*, English Commercial Corporation.\*

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\*See Chapter 2, pp. 37-38, ante.

Its capital was entirely subscribed by the British Treasury, but its actual resources have been much more than its published capital—in fact they have been as extensive as the actual and potential resources of the British Treasury itself. It has been operating as an organ of the British Ministry of Economic Warfare and in close association with the British Ministries of Transport, of War and so forth. It is thus a purely H.M.G. show. The object of the Corporation, as originally designed, was to outbid the enemy in competitive and neutral regions and to supplement rather than supplant the normal trade machinery. It was a belated answer to the German economic *Drang nach Osten* which had put the Balkans safely "in the bag". But though this political objective has been repeatedly affirmed and emphasised by the Officers of the British Government and the UKCC alike, it has been found to deviate from this object and consequently the declaration of this type have not carried conviction generally.\* No wonder that the UKCC has been made a target of serious and strong attacks in the country of its origin as well as in India.

In Britain, the UKCC has been firstly criticised for having created a sort of monopoly for itself and for having displaced private traders to an extent that has been causing anxiety, though the tone and extent of such criticisms and complaints have been carefully cushioned by the need of a united stand in face of an aggressive enemy. The complaint on the part of the people regarding the manner in which the UKCC was spending public money became quite insistent at one time so much so that the Public Accounts Committee definitely declared that it could not allow the audit and inspection of accounts of the Corporation, which was spending such huge amounts of public money, to be postponed *sine die* and to stage only a *post mortem* show

\*For a fuller elucidation of this viewpoint, a reference may be made to my book **UKCC and India** (Bombay, 1944).

after the war is over and the enemy is laid low. On the second count, therefore, satisfaction has been given to the public opinion and the accounts of the UKCC are now subject to public audit and inspection, though they are still kept carefully surrounded by a halo of mystery and it is only through narrow chinks that we can secure perfunctory information regarding its activities.

The advent of the UKCC in this country became a *fait accompli* quite early in the history of the Second European War. The UKCC did not overtake us by the device of an especially created machinery and unit as she did in the case of some other foreign countries as is clear from the well-known subsidiaries like the UKCC (Spain), UKCC (Portugal), UKCC (Turkey), UKCC (Egypt), UKCC (Palestine), UKCC (Iran), UKCC (Sudan), Arctic Trading Corporation and Indo-Iranian Trading Company, which are the important component threads of the wide net in which the UKCC has closely caught the so-called backward regions, coloured and uncoloured. It has operated with undiminished vigour in this country through its representative on the pattern of its linkage with New York and Buenos Ayres. Now, when the UKCC arrived in India, her foreign trade was in a chaotic state. The full impact of the war had fallen on her trading mechanism and it had yet to recover from the fall. The superb *laissez faire* policy of the Government of India in a world of controlled and closed economies on all sides, was going on its merry rounds, leaving the foreign trading machinery, which was lying derelict, in the lurch. In such a condition the UKCC came, it saw, it conquered. The advent of such an armed-to-teeth trading body was no less than a stab in the back of our fallen economy. The UKCC soon assumed the monopolistic control of wartime foreign trading in this country, and did not give the Indian traders a chance to rise to the occasion. The Indian exporters and importers found themselves unjustly ejected from a field which was theirs by national rights.

Had the UKCC not been the possessor of all the resources and privileges which it could command mainly by virtue of its being the organ of the British Government, it could not have made the Indian business houses to fall like a house of cards. Had it even not been the recipient of favours at the hands of the obliging courtiers of the New Delhi Durbar this would not have been so. But the Government of India committed sins of commission as well as omission. They continued to stick to the "let alone" shibboleth with the devotion worthy of a Mrs Micawber and were satisfied and placid onlookers of the deleterious operations of the UKCC octopus in the Indian waters. No attempt however feeble was made, as was being done in the U.S.A., U.K., Argentina and elsewhere, to revitalize and bring order and strength in the Indian export-import machinery. On the contrary, they poured upon the intrusive UKCC all the favours and privileges either as a result of the courtesy of the British friends in the Government offices or because of direct requests of the one or the other Ministry of H.M.G., as was clearly admitted by the Government of India in their *Communique* on the subject. Thus it comes about that the Corporation has been given in this country what is regarded as a valuable monopoly trading right. It has received profitable export licenses, high orders of priority and large and frequent shipping spaces not usually available to Indian traders. Even in the matter of inland and water transport, it has been alleged, the UKCC has been awarded discriminating priorities. The result can better be imagined than described. Many of our export and import traders have been rendered defunct. The UKCC has carried the day.

The UKCC has thus become the most important channel through which a large part of the foreign trade of this country is being conducted, much of which at present lies concealed in the mass of statistics which are closely guarded secrets. With the U.S.S.R., the UKCC

has been the sole trading body from this country. It was declared on behalf of the Government on the floor of the Legislative Assembly that the value of the trade which the UKCC carried on with Russia alone amounts to Rs. 8 crores per annum, a figure which must have considerably increased subsequently because of the rising tempo of the war. In dealing, again, with countries like Iran, Turkey, Palestine, Syria, South Africa, etc., the UKCC has emerged as a major factor and the Indian traders have been expelled. In trading with them, the bulk of the commodities which matter during a war, is handled by the UKCC on a virtually monopolistic basis, *de facto* or *de jure*. Indian trades have thus been deprived of their old business connexions, the new business contacts which they were for the first time securing, and other useful contacts of a more or less permanent character which they could have further acquired in the absence of the UKCC. This is a thing which has seriously embarrassed the people of this country.

After all is said and done, the fundamental question that remains to be answered is : What was the necessity of the UKCC's coming to India and operating on such a large scale ? India never had the ghost of a chance of enemy bidding. Her productive, trading and other economic limbs were geared up to the hilt to meet the war requirements of the Allies. Her industrialists, labourers and people in general have been contributing fully and splendidly to the conclusion of the war in the minimum possible time. If co-ordination was what was desired it could have been secured in more than ample measure by setting up an Indian counterpart of the UKCC, named as Indian Commercial Corporation, owned and operated by the commercial community of this country, together with the Government if necessary, and supervised and controlled by the Indian Government. The conclusion has been irresistible that the Government of India have been guilty of a neglect of duty

## NEED FOR AN INDIAN COMMERCIAL CORPORATION 103

towards the nation and have been merely conniving at and taking an indulgent view of the wrong that has been and is being perpetrated by the UKCC.

The UKCC's activities have particularly come in for a good deal of serious criticism because of the fact that the British Government refused to give a guarantee to India that the Corporation would cease its operations after the return of peace. In fact it has now been definitely declared on their behalf that the Corporation will continue to function even after the war.

Now, in the capacity of a post-war organ of British trade, it is feared that it would close up this country with steel rings, as it has already done, out of which we would not be able to get away and inside which we would not have sufficient scope for economic development, planned and unplanned.

Indian opinion has, therefore, been right in demanding that in order that the Indian economy finds relief from the clutches of the UKCC octopus, the Corporation must go and go soon; and its place should be occupied by an Indian Commercial Corporation. The idea for the establishment of such an organization was mooted much earlier and recently the demand was renewed by Mr. Naran L. Kara, President of the Exporters' Association, and Kumarajah Sir Muthiah Chettiar, the ex-President of the Federation of Indian Chambers of Commerce and Industry. The commercial community and the intelligentsia of the country soon lined themselves up behind this demand and an atmosphere was created in which the Government had to take a stock of their position and to prepare themselves either to convince the country of the advantages and necessity of letting the UKCC continue or to be themselves convinced of the need of forming an ICC. It was for this purpose that a conference between the representatives of trade and industry and of the Government of India was called

at Bombay in September, 1944. But at this time the balance of war had begun to turn decisively in favour of the United Nations and victory appeared to be a matter of time only. Indian industrialists and businessmen became anxious to revert to the pre-war conditions to such an extent that they demand the expulsion of the UKCC in the post-war period and deliberately shelved the demand for the formation of the ICC, which, as we shall discuss below, was a most unfortunate move.

## II. The Bombay Conference and the Abandonment of the ICC Proposal

The Bombay Conference between the Commerce Department representatives and the spokesmen of the Indian business community, which met to discuss the future of the UKCC in this country, ended in fiasco ; and such hopes as the people of the country had entertained regarding its favourable outcome, were all frustrated. The Government of India practically did nothing more than up-to-dating their old arguments in defence of the UKCC and bypassing its unbridled and injurious operations. But the opinion of the Indian business community as expressed at this meeting had undergone a sort of *volte face*, and the approaching end of the war appeared to have damped their ardour for the formation of an Indian Commercial Corporation to function as the Indian counterpart of the British UKCC. While they have been complaining from house-tops that the UKCC has been as much as ensured a post-war lease of life which will be ruinous for Indian trade and industry, they had been oddly thinking of the ICC merely as a wartime institution ; and there appears to have been a facile presumption on their part that conditions of foreign trade in India will happily revert to the near-pre-1939 position as soon as the last shot has been fired. Even when the proposal for the formation of the ICC was originally mooted and the scope of its activities was very narrowly outlined by Kumarajah Sir Muthiah

Chettiar, the *Bombay Commerce*—perhaps the only economic journal in this country—cogently pointed out the danger inherent in such a narrow vision and made a strong plea for broadbasing its functions and *role*. But the Indian businessmen seem to have paid scant attention to it. They thought little about the picture of the future operations of the UKCC, and less about the potentialities of an Indian Commercial Corporation. Their position at the time of the Conference was that with the end of the war in sight, the question of setting up an ICC does not arise; all that they now wanted was that the hated UKCC should leave the shores of this country, bag and baggage, immediately after the war and let Indian traders work in peace as before the commencement of the hostilities.\*

The change-over in viewpoint, we fear has been unfortunate as it was based on a wrong presumption, looked askance at the realities of the situation, and ignored what an ICC could do for the benefit of Indian trade, commerce and industry.† The idea that the post-war conditions are going to be a happy replica of the pre-1939 pattern is merely wishful thinking and the hope that only if the UKCC recedes itself, all will be well, nothing short of self-delusion. On proper account being taken of the antecedents of the UKCC and the tendencies which would become the warp and woof of the future, it would be found that the pre-war trading pattern in its original shape has irrevocably sunk in the yawning gulf of time and the UKCC has not been busy and will not remain busy merely with the political trade. There is need of revising the viewpoint of the Indian business community regarding the ICC in the light of this hard and important fact.

\*I am indebted to Sir Chunilal B. Mehta for modifying my view, on this point.

†For a detailed discussion of this point, see my *UKCC and India* (Bombay, 1944), Chapter VII.

It would be easily accepted that the foreign trade pattern of this country after the war will have to follow the international mould either voluntarily or under the inevitability of the circumstances then obtaining. The probable picture of this future is implied in the British Government's attitude regarding the future of the UKCC. Dr. Hugh Dalton plainly refused to give a guarantee that the Corporation will close down its show after the war. The Chairman of the UKCC feels certain that the Corporation will work for some years after the war and maybe perhaps much longer. The Federation of British Industries envisages a brilliant future for the Corporation and all that it desires is that far from usurping the field of the private business, it should become its helpmate. The absorption of the surpluses and the building up of stocks of food-stuffs and raw materials as reserves for the post-armistice distribution is its one shape of activities as envisaged by the London *Economist*, in which it is expected to act in collaboration with one or the other of the Commodity Reserve Corporations formed with the financial help of the Reconstruction Finance Corporation. The same paper has, again, declared more than once that if the bulk trading with Government monopolies is the shape which international foreign trade takes after the war, there could not be a better foreign trade organization from the British angle than the UKCC. "If it is decided," it once observed, "to continue inter-Governmental bulk trading in certain essential commodities, the UKCC may be found useful in filling of the role of a British Arcos." Even if the State does not so openly take part in foreign trade, there is no doubt that the British Government will surely do all in its power to increase British exports, a policy which it has been consistently and valiantly following for the last several years culminating in the registration of the UKCC as British Treasury property. In the post-war days when British reconstruction will depend, in its *tempo* and extent, upon the quantum of British exports, and when American goods will begin to enter into serious compe-

tition with British goods in international markets, the UKCC will be found a very useful tool, by virtue of its established connections, excellent experience and Government support, to expand British exports. It is more than evident, then, that in near future Indian foreign traders will have to face serious competition from Government subsidised, organized, and otherwise assisted bodies like the UKCC.

It would be wrong to fancy that our exporters and importers will be able to gear up their efficiency and other ingredients making up their competitive strength to such an extent as to be able to hold their own in such a set-up and to valiantly and brilliantly match their swords with anybody threatening cut-throat competition from abroad. Unless there exists in the country a body which represents the combined strength of all our importers and exporters backed by the active assistance, of diverse types, of the Government of the country, it would not be possible to dispel the wolves from our doors howsoever loud may be our voice for help.

### III. Future Line of Action

It is from this broader angle that the proposal for the formation of the ICC is now to be examined and supported. The ICC (which should be owned and managed by the businessmen of this country along with the Government if necessary), if brought into existence at this stage will discharge the foreign trade functions now being performed by the UKCC so long as the Japanese War lasts and during the transition period, and later on when peace returns it can put on the garb of a body which can completely and suitably deal with the Arcoses created, helped or owned by foreign Governments. Besides this, it can help us to import capital goods, arrange for their transport to this country, sell our surplus agricultural commodities abroad, secure a place for Indian goods in foreign markets and train a body of officers having intimate knowledge about

foreign markets and demand and capable of turning to good account the opportunities offered by international trade.

This aspect of the matter has to be fully appreciated by our business community and it must realise that its having dropped the demand for the formation of the ICC is a grave mistake. That only if the UKCC is thrown outside the lake of the Indian business, Indian businessmen would gain a great point and that if they make their demand top-heavy, they would merely defy its acceptance, seems to be rather overdone. Indian businessmen must, indeed, give further thought to this national issue and agitate vigorously for the creation of an Indian Commercial Corporation.

### POST-SCRIPT

As this page is being printed, we get the news that the UKCC will soon close down its offices in this country in near future. There is bound to remain dissatisfaction on the part of the public regarding the vagueness and uncertainty that is inherent in the term "soon". But, on the whole, it is good news. Thanks to the ceaseless and extensive agitation conducted against the Corporation in this country, our commercial community has realized its heart's desire at least in this important respect. But the dismissal of the UKCC from this country and the formation of an ICC are the negative and positive aspects of one and the same problem ; and there is need of setting about the latter aspect now in right earnest. Let our industrialists and businessmen ask themselves if the dismissal of the UKCC would solve their foreign trade problem. Can they mould the foreign trade pattern of India according to their desire under the existing circumstances ? If

not, is it not possible for an Indian Commercial Corporation, if one is set up, to give them valuable help in this direction ? It is from this angle that there is need of reconsidering the whole problem coolly and calmly. The role of the ICC, we may repeat, must be broadly envisioned and it should be so constituted as to be able to make the most of our present and post-war foreign trade opportunities. It is important to remember that this is just the time when the demand of our businessmen for the formation of an ICC might succeed. They have won an important victory, and they must press for the acceptance of their whole demand. Surely if they have strength enough to bring about the expulsion of the UKCC, they can also confidently expect to bring about the formation of an ICC. Only if they strike when the iron is hot, and strike hard, they may achieve something that may mean much for the economic progress for this country.

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